MFSA FINANCIAL SERVICES AUTHORITY

2019

ANNUAL REPORT



Contents

01	CHAIRMAN'S FOREWORD	04
02	CHIEF EXECUTIVE'S STATEMENT	08
03	HOW WE ARE STRUCTURED	16
04	WHAT WE REGULATE	36
05	OUR CROSS-SECTOR PRIORITIES	45
	Governance, Culture and Conduct	47
	Combatting Financial Crime, Money Laundering and Terrorism Financing	56
	Financial Stability and Sustainability	64
	Technology and Innovation	68
	Cybersecurity and Resilience	79
	Organisational and Operational Capacity	81
	Conduct Supervision	85
06	OUR SECTOR-SPECIFIC PRIORITIES	88
	Credit and Financial Institutions	89
	Insurance and Pensions	94
	Securities and Markets	97
	Capital Markets	100
	Trustees and CSPs	103
07	FINANCIAL STATEMENTS	107
08	STATISTICAL COMPENDIUM	148
09	APPENDICES	170



MFSA
Our Vision

To be a leading, forward-looking financial services regulator, having the respect and trust of the industry and the general public, contributing towards a strong and dynamic financial sector.



Chairman's Foreword

It is with great pleasure that I introduce the Annual Report of the Malta Financial Services Authority (MFSA) for 2019. The year has indeed been an eventful one for Malta and for the Authority in particular. Multiple events highlighted several challenges for our jurisdiction and for the financial services sector, not least those emanating from the threat of global financial crime.

To effectively address these challenges and enhance the potential contribution of the financial services sector to the Maltese economy, the Authority launched a Strategic Plan, covering 2019-2021, that lays down policies and measures to be implemented over this period. The execution of this plan will upgrade and extend the MFSA's capabilities and operational effectiveness to safeguard the stability and integrity of the financial market, protect consumers' interests and promote market competitiveness. >





MFSA ANNUAL REPORT 2019

As Chairman of the Board of Governors, I am particularly focused on the progress being made by the Authority on enhancing governance, culture and conduct, and how this translates into improved practices across regulated entities.

This element, strongly embedded as a cross-sectoral priority in the Authority's Strategic Plan, is fundamental to addressing all our other priorities, especially those relating to financial crime, money laundering

11

A Risk Management function was also set up with its main responsibility being that of internal risk analysis and mitigation.

and terrorism financing. This core emphasis is also intended to ensure effective organisational and operational capacity and to achieve our objectives in the regulation and supervision of specific sectors. Issues surrounding the COVID-19¹ situation are looming heavily across practically all business decisions and actions at this juncture. Within the context of the required flexibility to effectively meet this challenge, this event is not expected to unduly hamper the Authority's ongoing efforts to strengthen its governance and conduct and the effectiveness of its supervision.

In 2019, the Authority articulated a Corporate Governance Framework which defines and distinguishes between the roles and duties of its Board of Governors and the Executive Committee. Notably, the Framework strengthens the roles of the Risk and Audit Committees to enable the Board of Governors to better exercise its ultimate responsibilities in these two fields. The structure of the Authority has been further bolstered by two Statutory Committees, with one focusing on supervision and the other on enforcement. A Risk Management function was also set up, with its main responsibility being that of internal risk analysis and mitigation. Through the application of an effective Three Lines of Defence model, the Board of Governors looks forward to a risk-based culture already being introduced by the Governance and the Executive functions of the Authority, in order to attain the best results with the resources available. >

¹COVID-19 is an infectious disease caused by a newly-discovered coronavirus that was initially detected in China in late 2019 and spread dramatically worldwide.

We have already seen the direct operational results of these efforts over the past year. I note with satisfaction the introduction of additional verification mechanisms in the authorisation process, directed at shareholding structures, governance frameworks, internal controls and business models. Furthermore, the Enforcement Directorate has upscaled its attention on investigations into licence holders who have, or are suspected of having, committed compliance failures, misconduct or breaches of financial services legislation, with significantly more emphasis on the undertaking of appropriate regulatory action.

These initiatives demonstrate our commitment to address key priority issues within the financial services sector.

The MFSA's three-year Strategic Plan marks the start of a journey towards achieving the long-term vision of becoming a leading, forward-looking financial services regulator contributing towards a robust local services market. I must, however, remark that for the Authority to continue delivering on its mission within an ever more challenging global financial and regulatory framework and the specific demands being made on our jurisdiction, there must be a shift towards financial self-sufficiency, which would enable the Authority to significantly expand the quality and volume of its

resources. The Authority will strive to continue engaging with all relevant stakeholders regarding the importance of this approach, to optimise, through its actions and interventions, the value it delivers to the financial services sector and to the jurisdiction as a whole.

Whilst extending my appreciation to all Board members, I would like to thank our executive management team and all our valued staff members for their hard work and dedication. I look forward to further results over the coming period, which will consolidate the financial services sector as one of the main pillars of the Maltese economy.

Prof. John Mamo

Chairman



For the Malta Financial Services Authority, 2019 marked an intensification of efforts towards its transformation and development to meet the expectations of international standard setters and the global and jurisdictional challenges to the development and regulation of the financial sector.

The financial services sector remained a key pillar of the Maltese economy in 2019 as it directly accounted for 6% of the country's Gross Value Added. The sector grew by 2.3% in terms of gross value added over 2018 and generated 430 jobs, bringing the total jobs within the sector to 12,230. This represents 4.9% of the total employment in Malta. The MFSA acknowledges the unique role it plays in this regard and embraces the responsibility it has to ensure resilience and the continued and sustainable growth of the sector, to provide a harmonised and effective regulatory approach and to prevent misconduct. >



The financial services sector directly accounts for **6**% of the economy gross value added.



MFSA ANNUAL REPORT 2019

The COVID-19 pandemic places ever greater emphasis on the role of the MFSA in ensuring stability in the financial services sector.

These circumstances are having a global impact and will continue to have significant implications on the global financial services industry. Against this backdrop, the MFSA has issued various regulatory updates in order to emphasise the need for business continuity at financial services firms. The MFSA is focused on providing the necessary flexibility and guidance to regulated firms to ensure they are responding effectively to the evolving situation.

While the MFSA understands that, in the current climate, certain regulatory requirements may not always be met, the MFSA expects regulated firms to take all reasonable measures to provide the necessary reports during this period and to have appropriate contingency plans in place to be able to deal with any eventuality. The MFSA has also issued a set of guidelines to consumers, outlining the measures it has put in place to safeguard their interests during such extraordinary times. In this context, the MFSA is closely collaborating with the Central Bank of Malta (CBM), European Supervisory Authorities (ESAs), as well as with the European Central Bank (ECB).

Looking ahead, the Authority will continue working towards the implementation of its three-year Strategic Plan, launched in 2019 with

its Vision 2021. This Plan has been developed to effectively address challenges emanating from local and global dimensions, including the fight against financial crime, managing new emerging risks, including cyber-threats, curbing misconduct and addressing the constraints in the availability of supervisory skills.

Having published the Strategic Plan last year, it followed that this Annual Report provides a detailed account of the Authority's activities during 2019 in the same format and along the same headings. To this end, I would like to highlight some of the key initiatives undertaken, and successes achieved.

Combatting financial crime, money laundering and terrorism financing

The fight against financial crime, money laundering and the financing of terrorism remains a top strategic priority of the MFSA, to mitigate threats to the stability of the industry and the country at large. Apart from launching an AML/CFT Strategy which sets out the role of the Authority in relation to combatting money laundering and terrorism financing, we are embedding the fight against financial crime in our organisational culture through training and awareness, whilst further strengthening coordination and cooperation with relevant local and international bodies. The Authority has also integrated >

AML/CFT oversight into its prudential and conduct supervisory processes so that regulated firms are supervised holistically using a risk-based approach.

In 2019, the MFSA established a specialised and dedicated team on financial crime compliance, with the aim of accelerating the Authority's effectiveness in detecting and responding to risks and cases of misconduct by supervised firms. The team has been supported by best-in-class global expertise. The Authority has also intensified its collaboration and knowledge-sharing with international experts and other international bodies such as the United States Commodity Futures Trading Commission (CFTC) and the U.S. Embassy in Malta.

The Authority has developed a risk-based supervisory model for AML/CFT, which will form part of a wider risk-based ranking framework for regulatory supervision. The depth of scrutiny has been intensified in the course of the 25 AML-focused onsite examinations conducted at licensed entities in 2019.

Financial stability and sustainability

The MFSA continues to play a key role in safeguarding the stability and sustainability of the local financial market against current and emerging risks. In 2019, the MFSA Act was amended to formally

The Authority has also integrated AML/CFT oversight into its prudential and conduct supervisory processes.

mandate the Authority to safeguard financial stability in collaboration with the Central Bank of Malta. The engagement by the Authority in micro-prudential policy towards financial stability and sustainability also involved the MFSA in the introduction of Borrower-Based Measures aimed at strengthening the resilience of lenders and borrowers against unfavourable economic developments in the real estate sector, together with revisions in the Other Systemically Important Institutions buffer methodology. >

Technology and innovation

The financial services sector continued to experience sustained digital transformation, which presented entities with new challenges, threats and opportunities. During 2019, the MFSA undertook several initiatives to assist firms in embracing technology, overcoming the trials it presents and taking advantage of the possibilities it offers. The Conduct Supervision function, for instance, was involved in the MFSA's launch of the online portal for the Trusts Ultimate Beneficial Ownership Register (TUBOR), which was developed in order to facilitate the electronic submission of beneficial ownership information of trusts.

The Technology team has been strengthened, and a separate Data Management and Business Intelligence (DMBI) function has been set up. The role of the DMBI function is to articulate, develop and implement a strong data management strategy which will ensure that the Authority strengthens data-driven supervision through the application of modern and sophisticated business intelligence and knowledge management tools.

The Authority also embarked on a digitalisation process governed by a strong IT strategy, while launching a new website and other technology investments to support the Authority's core functions and its key operational procedures. These were essential steps in a process which will see the Authority invest heavily in a new Supervisory Cycle Management System (SCMS), enhancing its efficiency and cost-effectiveness in the coming years.

On the innovation front, we have launched a Fintech Strategy which aims to support and enable the financial services sector to invest in technology and innovation whilst safeguarding investor protection, market integrity and financial soundness. A consultation paper on Security Token Offerings (STOs) was published in the course of 2019, taking into consideration the evolving needs of the industry. The Authority was also engaged in the development of new RegTech tools which improved the process relating to the submission of prudential and financial information by banks. >

A strong data management strategy will ensure that the Authority becomes a data-driven regulator.

How We Are

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific
Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

Cybersecurity and resilience

The MFSA has set up a new ICT Risk and Cybersecurity function within its Supervision Directorate, which is now embedded as one of the top priorities. The Authority is also planning to publish detailed ICT Risk and Cybersecurity guidelines, in line with evolving guidance provided by the ESAs and internal best practices in this field. On its part, the MFSA has continued investing in its own cybersecurity programme, including the use of self-learning cyber Artificial Intelligence (AI) technology, which constantly monitors the Authority's systems.

Conduct supervision

The supervision of conduct remains key to the basic objectives of the Authority and to support the attainment of other priorities. During 2019, we placed continued focus on retail investor protection in order to ensure that the interests of consumers of financial services are safeguarded and are placed at the centre of supervised firms' operations. The number of onsite inspections were increased, and intensified, including inspections to local insurance principals having a Tied Insurance Intermediary (TII) network, to investment firms to evaluate risks in a number of areas emanating from Markets in Financial Instruments Directive (MiFID) II, as well as to licensed trustees and Company Service Providers (CSPs) focusing on corporate governance

and effectiveness of the board of directors as well as the compliance function. As part of the strategy adopted to enhance consumer protection, we have been focusing not only on supervising entities to ensure equitable outcomes for consumers but have also carried out a series of educational campaigns for consumers to enable them to take more informed decisions.

Organisational and operational capacity

In 2019, a five-year Business Plan was developed with the aim of enhancing the Authority's operational and supervisory capacity underpinned by an ambitious technology and data management strategy, leading to financial self-sufficiency based on a revised fee policy. While we believe this is the best way forward for the Authority to bolster its resources and efficacy, to ultimately provide a sterling service to the financial community, it is also in line with the recommendations of international institutions scrutinising the Maltese economy and financial sector developments.

This Plan will see the Authority develop its human capital base in terms of numbers and skills. This will be complemented by investment in business intelligence and knowledge management technology, to enable better data analysis and knowledge-sharing within the Authority. In order to start moving towards financial >

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

/ Financial Statements 8 Statistical Compendium

9 Appendices

self-sufficiency, the MFSA is in the process of revising its policy in relation to application and supervisory fees based on a cost recovery model. The proposed revisions consider the Authority's time-effort as well as its risk appetite.

Key to the efforts of the MFSA is the cooperation with other regulators and the live channels of communication with the global regulatory community and the regulated entities themselves. I look forward to more of this constructive collaboration in the future.

The past year has been undoubtedly challenging, yet equally rewarding. The Authority has made headway in providing a more agile, dynamic and efficient environment for the benefit of consumers and regulated firms. This will continue to establish the MFSA as a visionary financial services regulator, worthy of the respect and trust of the industry and the public at large. In 2020, the Authority shall continue its transformational journey underpinned by a steely determination to strengthen its regulatory standards and oversight, the ultimate objective being that of raising compliance standards across the entire jurisdiction.

In conclusion, I would like to thank the Chairman for his support and wise counsel and the Executive Management team and all the staff of

In 2020, the Authority shall continue its transformational journey to strengthen its regulatory standards and oversight.

the Authority for their sterling work, effort and manifest dedication. I am proud to lead an organisation with a clear vision, brimming with talented and committed individuals.



Chief Executive Officer



To be an independent, proactive and trustworthy supervisory authority whose purpose is to safeguard the integrity of markets and maintain stability within the financial sector for the benefit and protection of consumers.



3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/ Financial Statements 8 Statistical Compendium

9 Appendices

THE AUTHORITY'S STRUCTURE

Board of Governors

Prof. John Mamo

<u>Chairman</u> <u>Chief Executive Officer</u>

Joseph Cuschieri

Current Members

Ernest Azzopardi Mario Borg Joseph Brincat Lauren Ellul André Psaila

As at end of 2019

Mario Vella

Mario Borg Joseph Brincat Frans Camilleri John Consiglio Lauren Ellul André Psaila Mario Vella Herbert Zammit LaFerla Secretary

Jean Pierre Attard

ORGANISATIONAL STRUCTURE 2019

Organisation

The Malta Financial Services Authority (MFSA) was established in 2002 by the Malta Financial Services Authority Act (Cap 330). The Authority is the single regulator for the financial services sector, which includes credit and financial institutions, securities and investment services companies, recognised investment exchanges, insurance companies, insurance intermediaries, pension schemes, corporate service providers and trustees. As from 2018, the MFSA was entrusted to regulate virtual financial assets. The MFSA is also responsible for the admissibility to listing on recognised investment exchanges and for the resolution of banks in terms of the MFSA Act. Following the enactment of Legal Notice 144 of 2018, "Registry of Companies (Establishment as an Agency) Order," which was issued under the Public Administration Act, on 30 April 2018, the Registry of Companies demerged from the MFSA and is now an independent Government Agency, rebranded as the Malta Business Registry.

Structure

The Board of Governors is responsible for establishing the policies, risk parameters and the general strategic direction to be pursued by the Authority. In determining such policies, the Board of Governors follows the guidelines as set out by Government. The Board of Governors is also responsible for advising Government on matters relating to the development and regulation of the financial services sector. The Board of Governors is the Listing Authority for the purpose of the Financial Markets Act (Cap 345). The Listing Authority may delegate any of its functions and powers to the Executive Committee. The Chairman and the members of the Board are appointed by the Prime Minister for a term not exceeding five years.

The MFSA is divided into five Directorates. Headed by their respective Chief Officer, each Directorate covers a core area: Enforcement; Legal and International Affairs; Operations; Strategy, Policy & Innovation and Supervision. In turn, each Directorate is divided in different functions, which are led by their Heads.

Additionally, a number of Committees have been set up with the aim of ensuring appropriate governance and accountability within the different areas.

3 **How We Are** Structured

4 What We Regulate

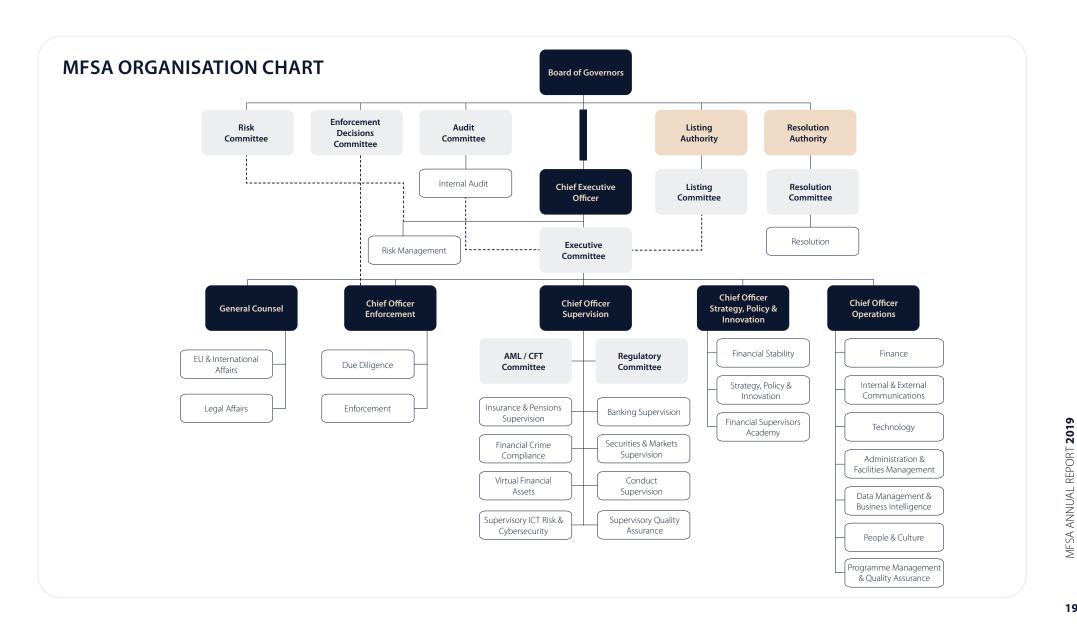
Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

Financial Statements

8 Statistical Compendium

Appendices



3 **How We Are** Structured

4 What We Regulate

5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

Financial Statements

8 Statistical Compendium

Appendices

COMMITTEES

Executive Committee

The Executive Committee, appointed in terms of Article 9 of the MFSA Act, is the main organ of the Authority, and is responsible for the implementation and execution of the strategy and policies of the MFSA. The Executive Committee is responsible for the authorisation and supervision of all licensed entities and persons operating in the financial services sector including the enforcement of the MFSA's regulatory framework. The Executive Committee also meets as the Listing Committee and makes recommendations to, and otherwise assists, the Listing Authority in the admissibility to listing of financial instruments.

The Executive Committee is responsible for the overall performance and day-to-day management of the Authority including its financial affairs, human resources, programme management and technology planning.



Chief Executive Officer



Christopher Buttigleg Chief Officer Supervision



Edwina Licari General Counsel



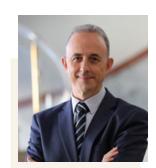
Rosalie Tanti Secretary



Michelle Mizzi Buontempo Chief Officer Enforcement



Michael Xuereb Chief Officer Strategy Policy & Innovation



Ivan Zammit Chief Operations Officer

3 5 4 6 Chief **How We Are** What We Our Cross-Sector Our Sector-Specific **Financial** Chairman's Structured Foreword Executive's Regulate Priorities Priorities Statements Statement

OTHER COMMITTEES

Audit Committee

The Audit Committee assists the Board of Governors in its oversight responsibilities with respect to internal governance and controls, and internal audit functions of the Authority. In line with the <u>Audit Committee Charter</u>, the Head of Internal Audit liaises directly with the Chairperson of the Audit Committee on the agenda of the Audit Committee, and any requests for information and audits.

<u>Members</u>

Lauren Ellul (Chairperson) Mario Borg André Psaila

Risk Committee

The purpose of the Risk Committee is to assist the Board of Governors and the Executive Committee in the establishment and calibration of the Authority's risk appetite and the development of a dynamic risk management framework. To this effect, through its risk management policy, this Committee sets the tone for the Authority's risk management function and risk appetite in the organisation and indicates how this will support the Authority's strategy.

Members

Herbert Zammit LaFerla (Chairperson) Franco Borg Christopher Buttigieg Ivan Zammit

Resolution Committee

The Resolution Committee is appointed by the Resolution Authority, whose composition, powers and functions are governed by provisions set out in the First Schedule to the MFSA Act and the Recovery and Resolution Regulations (RRR). The Resolution Authority has assigned all its powers to the Resolution Committee for the Committee to carry out its functions. The Committee is ultimately responsible for taking resolution decisions pursuant to the MFSA Act and the RRR. It also interacts and collaborates closely with the Single Resolution Board (SRB) which is responsible for resolution matters at Union Banking level as established in the Single Resolution Mechanism Regulation.

8

Statistical

Compendium

Appendices

The Resolution Authority and the Resolution Committee operate independently from each other, and from the supervisory arm of the MFSA, to ensure that statutory responsibilities are achieved in a transparent and credible manner and are in line with the provisions of the Bank Recovery and Resolution Directive (BRRD).

Appendices

3 5 8 4 6 Chief **How We Are** What We Our Cross-Sector Our Sector-Specific **Financial** Statistical Chairman's Structured Foreword Executive's Regulate Priorities Priorities Statements Compendium Statement

Members:

Paulanne Mamo (Chairperson) Emanuel Ellul Philip Magri

Regulatory Committee

The Regulatory Committee co-ordinates regulatory, authorisation and supervisory matters. It is composed of the Chief Officer responsible for Supervision as its Chair, and the Heads of the Supervisory functions. The Chief Officer Supervision updates the Executive Committee, on an ongoing basis, regarding discussions and decisions made at the level of the Regulatory Committee.

Members

Christopher Buttigieg (Chairperson)
Joseph Agius
Emily Benson
Herman Ciappara
Alan Decelis
David Eacott
Anthony Eddington
lan Meli
Ray Schembri

Lorraine Vella Martha Chetcuti (Secretary)

Enforcement Decisions Committee

The Enforcement Decisions Committee will provide a clear line of demarcation between authorisations, supervision and enforcement within the Authority. The Committee will be composed of competent individuals from outside the Authority who are experienced in financial services and/or legal affairs and who shall act independently from the Executive Committee in reviewing enforcement decisions before such decisions are implemented by the Authority.

AML/CFT Committee

The AML/CFT Committee will act as a forum for the alignment and coordination of anti-money laundering and countering of terrorism financing investigations and processes, providing advice to the Executive Committee on process improvements relating to AML/CFT procedures and oversight.

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

MFSA FUNCTIONS



Calvin Cassar Head, People & Culture

Kevin FitzgeraldHead, Programme Management & Quality Assurance



Herman Ciappara Head, Virtual Financial Assets



John Sammut Head, Internal Audit



Daniela Bagnaschi Head, Data Management & Business Intelligence



Paul Caruana Head, Due Diligence

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

MFSA FUNCTIONS



Aldo Giordano Head, Resolution



Ray Schembri Head, Insurance & Pensions Supervision



Simon Bonett Head, Finance



David Eacott Head, Banking Supervision



Catherine Galea Head, Supervisory Quality Assurance

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

MFSA FUNCTIONS



Edward Grech Head, Enforcement

Reuben Vella Head, Technology Joseph J. Agius Head, Financial Stability

Emily Benson Head, Conduct Supervision



Anthony Eddington Head, Financial Crime Compliance



Franco Borg Head, Risk Management

Enforcement Directorate



Enforcement

The Enforcement function is responsible for conducting investigations and enforcing the regulatory framework vis-à-vis persons or entities authorised and supervised by the MFSA. It is also responsible for investigating persons or entities, who are not authorised by the MFSA and who are, however, suspected of undertaking licensable activities falling within the regulatory and supervisory functions of the MFSA. The Enforcement team also issues guidance to the public on how to detect investment scams and other market malpractices that could be detrimental to consumers of financial services, as well as notices and warnings to alert the public of the risks involved in transacting with certain entities.



Due Diligence

The Due Diligence function is responsible for conducting checks on persons being proposed to take on approved positions within entities to be licensed by the MFSA. The function's remit is to focus on probity, intelligence gathering, due-diligence and ongoing monitoring of fit and properness of individuals and their involvements while operating in the financial services sector. To this effect, the Authority is investing in more technology, information systems and process enhancements, along with human resources and skillsets, to increase the effectiveness and robustness of due diligence. Necessitating close collaboration with local and international law enforcement agencies and coordination between the different supervisory and regulatory teams of the MFSA, the function is responsible for carrying out probity screenings in relation to all qualifying beneficial owners as well as key functionaries within a licensed entity. The Due Diligence function is also responsible for carrying out ongoing checks on a risk-based approach, to verify that approved persons continue to be fit and proper for their position.

Legal & International Affairs Directorate



The Legal & International Affairs Directorate is generally responsible for legal and international affairs pertaining to the MFSA. It is composed of two functions, namely the Legal Affairs function and the EU & International Affairs function.

The Legal Affairs function provides legal advice across the organisation. It is responsible for the drafting and/or vetting of legal documents which the Authority may enter into. The Legal Affairs function is also responsible for the coordination and oversight of the legislative process falling under the administration of the MFSA, including such legislative amendments or new laws as may be required for the purposes of transposing EU Directives or implementing EU Regulations.

Moreover, the said function attends to any litigation matters and represents the Authority in any action or legal proceedings in

which the MFSA is involved or has an interest. This includes the preparation and filing of judicial acts and any other legal or judicial submissions or documents for the Authority, as well as any other work necessary in preparation for court or tribunal sittings.

The EU & International Affairs function is responsible for the coordination of relations with international organisations and memoranda of understanding with other foreign regulators. The function provides advice to Government on the formulation of financial services policy, mainly relating to upcoming legislative and non-legislative proposals issued by the European Commission. The function is also actively engaged in policy dialogue, negotiations and follow up of EU institutional affairs and dossiers.

Operations Directorate



Administration & Facilities Management

Acting as a support function for all the regulatory and operational functions at the MFSA, the Administration & Facilities Management function is responsible for managing the Authority's facilities including upkeep and maintenance of the premises, transport and logistics. The Procurement team within the function is tasked with procuring supplies/services, ensuring best practice and compliance with the Authority's policies and standards and with the Public Procurement Regulations, while the Records team is administratively responsible for the management of physical records across their complete life cycle. All travel requests of the Authority are handled by the Travel Desk within the function to ensure that business travel expenses are managed in the most cost-effective manner possible, while maintaining adequate controls. Front Office and Internal Events Co-ordination also fall within the responsibility of the Administration & Facilities Management function.



Communications

The Communications function has a pivotal role to play in supporting the MFSA's strategic priority of engaging directly and regularly with all key stakeholders. Acting as the central point of contact, the Communications function drives the Authority's internal and external communications, and is responsible for managing public and media relations. As designated brand guardians, the Communications team handles the MFSA's reputation and image on digital and offline platforms, including the Authority's website and social media presence, as well as corporate publications. As part of its remit, the Communications function oversees the organisation of the MFSA's events, which range from briefings, workshops and seminars for licence holders and financial services practitioners, to the MFSA's participation at fairs and conventions, both locally and overseas.



Data Management & Business Intelligence

The Data Management & Business Intelligence function treats the MFSA's data as an important asset and catalyst for risk-based supervision. The aim of this function is to enable timely and effective decision-making across the Authority, in line with the overall business strategy. The team is responsible for driving data governance, data quality management and integrity, as well as the data architecture, across the whole organisation.

MFSA ANNUAL REPORT 2019

Operations Directorate (continued)



Finance

The Finance team manages the Authority's corporate finances. This includes the preparation of financial budgets and forecasts, treasury, financial planning and control, book-keeping, payroll and all statutory accounting. The team is also responsible for the collection of licence fees, payments to suppliers and timely submission of financial statistics and information required by the Ministry for Finance and Financial Services, Board of Governors and other Government entities. The Finance function also liaises with the Statutory Auditors regarding the annual audit of the Authority's Financial Statements drawn up in compliance with International Financial Reporting Standards (IFRS).



People & Culture

Placing employees and other stakeholders at the very heart of the Authority's mission, the People & Culture function reflects the drive being undertaken by the Authority to bring about change and organisational growth. The team's remit is to provide the Authority with the human resource capabilities, essential for the fulfilment of its mission. It attracts and retains the best possible talent while striving to ensure that the Authority becomes an employer of choice for suitably qualified and experienced professionals. It also serves the training and development needs of employees, supporting them in the progression of their career paths. All projects and initiatives undertaken by the team are driven by the MFSA's values of integrity, trustworthiness, dependability, independence and excellence.



Programme Management & Quality Assurance

The Programme Management & Quality Assurance office is responsible for the setting up and ongoing management of a single, centralised framework, designed to ensure the implementation and delivery of key organisational projects and other change initiatives within the Authority. Whilst providing support to key business operations and IT projects to a successful conclusion, the function seeks to create a foundation for consistent project success throughout the organisation, through the development of a strong and pervasive programme management discipline within the organisation's project teams.

MFSA ANNUAL REPORT 2019

Operations Directorate (continued)



Technology

The Technology function at the MFSA leverages cutting-edge technology, industry standards and methodologies to provide reliable services to the rest of the organisation and the entities interacting with the Authority, through digital means. It is responsible for technology design, development, integration and delivery of the information and communications infrastructure, platforms and services. It also ensures data protection, while mitigating cyber threats using advanced protection mechanisms. Technology is also tasked with the responsibility of providing information security analysis to the regulatory functions. The team also provides operational support to the other functions of the Authority and is responsible for managing the Authority's resources, efficiently supporting the overall business strategy.

Strategy, Policy & Innovation Directorate



Financial Stability

The Financial Stability team carries out risk monitoring and macro-prudential oversight of the financial services sector. It recommends regulatory measures to address systemic and other potential risks impacting the sector, as well as the implementation of policy initiatives to meet regulatory and financial stability objectives. As a function, it interfaces with the microprudential supervisory functions of the Authority at the operational level, ensuring that all relevant information is shared and actioned across all areas of regulation and sector-specific supervision.



Strategy, Policy & Innovation

The Strategy, Policy & Innovation function provides advice, analyses and reviews on current and prospective strategies and policies related to the MFSA's key priority areas. The function also proposes new areas of potential interest to the MFSA and provides insight on how related frameworks may be developed. The function is also responsible for the implementation of the MFSA's FinTech Strategy. In formulating and proposing policies, the function seeks to ensure that the Authority is proactive in the face of new opportunities, perceived risks and changing international standards which may impact the industry, whilst fostering innovation and enhancing access to financial products.

Supervision Directorate



Banking Supervision

Banking Supervision is responsible for the authorisations and subsequent oversight of all licensed banking activities in Malta which includes non-bank financial institutions. The overriding target of this function is to ensure that licensed institutions comply with all regulations and licence conditions, whilst having the necessary governance and corporate control structures in place. Banking Supervision is also responsible for policy advice and development both within the MFSA and to external stakeholders, to consistently and effectively apply local legislation and EU legislation and guidelines issued by the European Banking Authority (EBA).



Conduct Supervision

Conduct Supervision oversees the way in which firms design their products and services as well as the way in which these firms manage their relationship with consumers. By setting up a regulatory framework that secures appropriate customer protection, the function ensures that clients of financial services are treated fairly, honestly and professionally by regulated entities. The team also enacts a pre-emptive supervisory regime which addresses potential or emerging risks for financial services consumers, together with an operational regime to strengthen the responsibilities of regulated persons in treating customers fairly. The Conduct Supervision function is also responsible for authorising and subsequently overseeing the conduct of trustees and corporate service providers (CSPs).



Cybersecurity & ICT Risk

The Supervisory ICT Risk & Cybersecurity function provides specialised insight to the Authority's supervisory functions across all sectors and on several fronts, including ICT Governance, ICT Risk Management, ICT Outsourcing and Cybersecurity Programmes, based on established regulatory frameworks, technical standards and guidelines. It also supports the development of policies and guidelines related to ICT Risk and Cybersecurity and participates in Working Groups and Committees at local and international levels. The function assesses cybersecurity resilience measures for licence holders and is a contact point for reporting cyber incidents.

Supervision Directorate (continued)



Financial Crime Compliance

Financial Crime Compliance (FCC) is a dedicated AML/CFT supervisory function established to strengthen the MFSA's role in preventing the use and involvement of authorised persons in money laundering and financing of terrorism. The function is entrusted with the supervision of the Authority's licence holders to verify that they comply with AML/CFT legislation and procedures. It monitors international sanctions and other restrictive measures whilst providing regulated entities with relevant information and guidance. In fulfilling its remit, it also coordinates closely with the prudential and conduct functions of the MFSA and collaborates externally with the Financial Intelligence Analysis Unit (FIAU), the National Coordinating Committee (NCC) for AML/CFT, the Sanctions Monitoring Board and other national and international stakeholders. By virtue of the MoU with FIAU, the FCC conducts certain inspections of regulated entities on behalf of the FIAU, and/or jointly in others.



Insurance & Pensions Supervision

Insurance & Pensions Supervision handles the authorisations and subsequent prudential oversight of authorised reinsurance undertakings, intermediaries, retirement schemes, funds and plan service providers, including business carried out in EU Member States or the European Economic Area (EEA). Supervision is carried out on a prospective and risk-based approach, comprising the continuous verification of the proper operation of the business of insurance and its compliance with insurance legislation, through a combination of off-site and onsite supervision. The team's remit is to protect policyholders and beneficiaries in accordance with regulatory obligations.



Securities & Markets Supervision

Securities & Markets Supervision is responsible for authorising and subsequently overseeing investment services licence holders, trading venues, central securities depositaries, recognised private collective investment schemes, amongst others. The function is also responsible for the regulation and oversight of activities in capital markets, including the processing of applications for admissibility to listing on regulated markets and the prevention of financial market abuse.

Supervision Directorate (continued)



Supervisory Quality Assurance

Supervisory Quality Assurance is a newly set-up function enabling the Authority to put more focus in this area, in line with European Central Bank recommendations. This function's work centres around the review of supervisory approaches in order to safeguard the consistency and quality of supervisory activities, while acting as a key contributor to the development of homogeneity across supervisory functions, in line with ESA standards.

From a quality assurance perspective, it ensures the proper use and continuous enhancement of the holistic supervisory framework and promotes supervisory standards in line with international best practices and the MFSA's vision. As part of its ongoing work, the function is also responsible for identifying emerging risks and deficiencies in internal supervisory processes and offers recommendations to address shortcomings.



Virtual Financial Assets

Malta has positioned itself as a leading jurisdiction in Distributed Ledger Technologies (DLT)-enabled financial services by creating the EU's first comprehensive legislation and regulatory framework in an environment that was previously unregulated.

The Virtual Financial Assets Framework was created to provide legal certainty to crypto assets and new technologies being used in financial services, whilst at the same time ensuring investor protection, market integrity and financial stability. The Framework establishes three types of authorisations - those of VFA agents, whitepapers, and VFA service providers. The Virtual Financial Assets function is responsible for receiving applications, granting authorisations and supervising licence holders within this regulatory framework.

Other Functions of the MFSA



Internal Audit

MFSA's Internal Audit arm is an independent and consulting activity designed to add value and improve the Authority's operations and control environment. It designs its audit engagements to provide independent and objective assurances to the Board of Governors, through the Audit Committee. The Internal Audit function employs a systematic, disciplined approach to evaluate and improve the effectiveness of the internal risk management, control, and governance processes. Internal Audit contributes to the achievement of the MFSA's objectives by providing objective assurance and consulting services on the effectiveness of internal controls, risk management and governance processes in compliance with international standards.



Resolution

The Resolution function interacts continually with European institutions and local authorities to draft resolution plans for banks and particular investment firms. This function also gives the Resolution Committee advice on whether an institution should go into liquidation or resolution. Furthermore, the function manages the process related to Resolution Funds and drafts policies and legislation supporting the resolution process.



Risk Management

Introduced as a separate function within the Authority in 2019, Risk Management is responsible for risk oversight. It acts as the second line of defence and is responsible for the organisation and development of work processes for the identification, management and reporting of risk within the Authority. The team is responsible for keeping the risk control framework under review, providing strategic input and direction with regard to the Authority's risk appetite, ensuring compliance with ESAs' standards.



Integrity:

an integral part of our mission, guiding our actions and decisions

Dependability:

to act in a reliable, transparent and accountable manner at all times

Trustworthiness:

to act with fairness, objectivity and respect when dealing with consumers and licence holders

Independence:

refers to performing the Authority's duties without external influence

Excellence:

to have the right competencies to combine quality with efficiency to demonstrate professionalism and to contribute to the setting of high standards



Chief
Executive's
Statement

3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

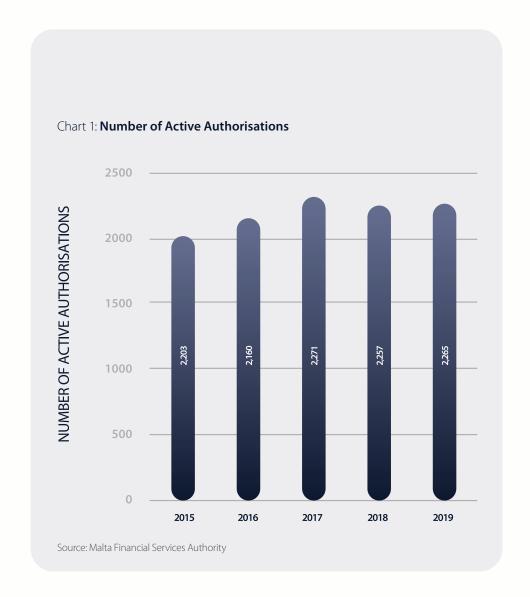
9 Appendices

As the single regulator for financial services in Malta, as at end of 2019, the MFSA supervises 2,265 active authorisations, of varying size and complexity.

As the financial services sector, and consequently also its supervision, continues to evolve in terms of breadth, depth, and sophistication globally, the MFSA is commensurately upgrading its capabilities to effectively continue to safeguard the stability and integrity of financial markets in the jurisdiction, protect consumer interests and promote market competitiveness.



2,265 active authorisations

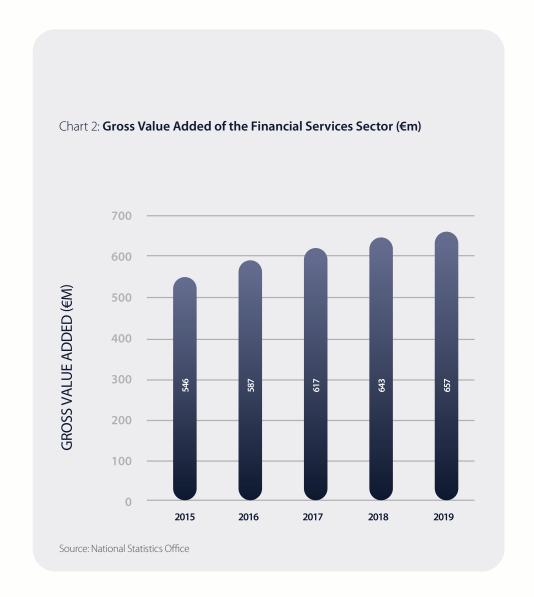


The financial services industry in Malta has continued to grow in 2019.

As depicted in Chart 2, its Gross Value Added (GVA) increased by 2.3% to reach €657 million, equivalent to **around 6% of the economy total**. This contribution is estimated to increase to 9.1% when taking multiplier effects into account.

GVA equivalent of around





2 Chief Executive's Statement 3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

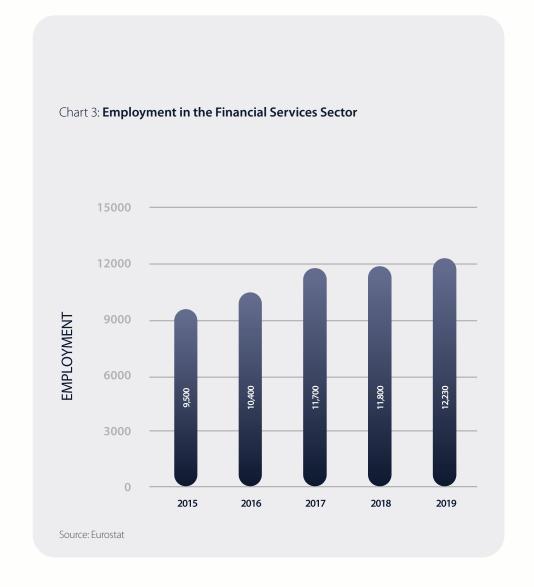
9 Appendices

The growth in the financial services sector is also witnessed in employment, where, during 2019, employment is estimated to have increased by 3.6%.

As indicated in Chart 3, there were **approximately 12,230 persons** working in the financial services industry by the end of 2019, representing 4.9% of total employment in Malta.

Employment in the financial services sector is estimated to have increased by

√W⊃ 3.6%



2 Chief Executive's Statement 3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/ Financial Statements 8 Statistical Compendium

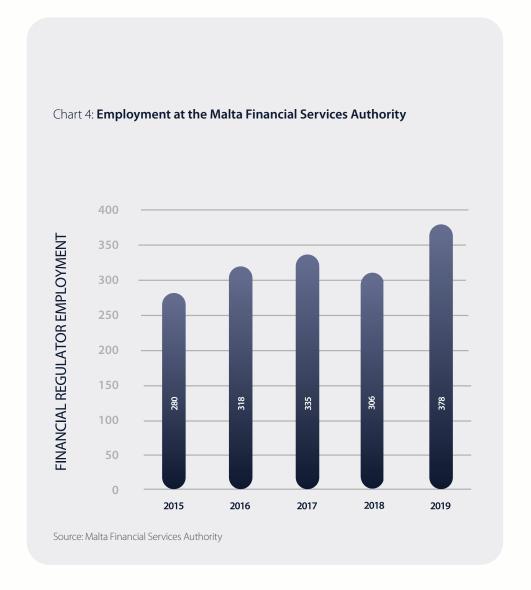
9 Appendices

Against the backdrop of global developments and challenges, the role of the financial services sector and its regulation in Malta has been increasingly scrutinised by the International Monetary Fund (IMF) and the European Commission (EC).

Assessments conducted during 2019 call for more investment in resources, more effective prudential and conduct supervision, financial crime compliance and enforcement action - in terms of staffing, skills, technology and data management - and more emphasis on risk-based supervisory approaches. Indeed, the total employment of the financial regulator, which, in 2019, stood at 378 employees, is projected to increase further over the next few years.

Employment at the MFSA stood at

378employees in 2019



Other challenges being faced by the local financial services sector include the following:



Skills Shortages:

This challenge is partially attributed to the significant growth experienced by the financial services sector in recent years. Based on the MFSA Skills Needs Survey 2015, 22.9% of the companies participating in the survey had skill gaps in their workforce. The results emerging from this survey indicated that insurance companies had the highest incidence of skill gaps. The most substantial gaps were registered in compliance skills, fund administration skills and skills pertaining to general regulatory requirements. In view of these challenges, in its Strategic Plan 2019-2021, the MFSA proposes reforms to the Education Consultative Council (ECC) such that, while retaining its existing mandate, the ECC would also be tasked with addressing the educational gap at all levels, including but not limited to, the available qualifications in financial services (university degrees, diplomas, certificates, etc.) and the identification of new areas where education is necessary, particularly with regard to areas of innovation, such as Financial Technology (FinTech) and Regulatory Technology (RegTech), amongst others. Furthermore, the Strategic Plan also recommends the formation of the Financial Supervisors Academy and measures aimed at increasing awareness and interest in careers within the financial services sector to address the gaps in the labour market.



Consumer Trust:

Instances of misconduct by licensed entities have an impact on the integrity and stability of the financial market and public trust. In view of the worldwide deterioration in consumer trust following cases of misconduct, the MFSA has stepped up its efforts to enhance its conduct supervisory framework and safeguard consumers' interests. The Authority aims to be proactive in monitoring the trends in the financial market, in identifying potential risks or indicators of misconduct at an early stage and taking remedial or enforcement action, where necessary.

11

The Strategic Plan recommends the formation of the Financial Supervisors Academy.



Chief Executive's Statement How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

Financial
Statements

Statistical
Compendium

9 Appendices



The MFSA has stepped up its efforts to enhance its conduct supervisory framework.

1 Chairman's Chie
Foreword Execusive State

2 Chief Executive's Statement 3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices



Shadow Banking:

In line with the IMF's Financial Sector Assessment Programme (FSAP) recommendations, **the MFSA** is working towards enhancing the analytical tools to assess systemic risks in the non-bank financial sector.

Shadow banking entities are generally not subject to the same standards of regulation as credit institutions and, therefore, do not provide the same level of protection to investors' funds. Furthermore, shadow banking entities do not have access to central banks' liquidity facilities.

In light of this, the MFSA recognises that it is imperative to monitor and mitigate risks which may arise through non-banks' ownership links with the banking system and interconnectedness of non-banks, which could amplify a possible repricing of risk premia. In addition, there are risks related to the possibility that non-bank competitors may reduce margins for the banking sector due to their increased presence in the market and proactivity towards FinTech.



Climate Change:

Climate change constitutes a major challenge, causing both threats and opportunities that will significantly affect the financial sector. The risks related to climate change may be driven by weather phenomena which cause severe losses in economic activities to which banks are exposed, the potential creation of bubbles in particular segments in the market for green financial products due to its rapid growth, profitability pressures on businesses to which banks are exposed due to the transition towards environmentally oriented trends and uncertainty for banks financing green investments due to difficulties in assessing risk level.

In view of this, the financial sector needs to step up its efforts to monitor and contain climate-related risks. On its part, **the MFSA** is adopting several measures to address climate-related challenges as displayed overleaf.

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

/ Financial Statements Statistical Compendium

9 Appendices

Putting Sustainable Finance into practice

Sustainable finance makes sustainability considerations part of financial decision-making. It includes a green finance component that aims to support economic growth whilst reducing pressures on the environment, addressing greenhouse gas emissions, tackling pollution and minimising waste and improving efficiency in the use of natural resources. Sustainable finance is needed to implement the Commission's strategy towards achieving the Sustainable Development Goals (SDGs).

In May 2018, the European Commission adopted a package of measures implementing several key actions announced in its action plan on sustainable finance, including Taxonomy Regulation, aimed at establishing a framework for the creation of a unified classification system for environmentally-sustainable economic activities, Disclosures Regulation to introduce obligations for investors and asset managers to disclose how they integrate environmental, social and governance (ESG) considerations into their risk process and Amended Benchmark Regulation to create new low-carbon and positive carbon impact benchmarks. The European Commission solidified its commitment to sustainable finance in 2019, through the European Green Deal Investment Plan, which will mobilise at least €1 trillion of sustainable investments over the next decade. It will enable a framework to facilitate public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy.

The MFSA has recognised that it has an important role in supporting the development of the green finance market by maintaining an open dialogue with policymakers, the industry and financial services users to make the transition to sustainable finance a reality. During 2019, the MFSA was accepted as a member of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), and has adopted the following key actions:

- placing Sustainable Finance amongst the key priorities of the MFSA in its Strategic Plan for the period 2019 to 2021,
- setting up an Internal Committee on Sustainable Finance to monitor ongoing developments in this field and ensure that these are wellintegrated within the supervisory and regulatory approach adopted by the MFSA,
- consulting on these changes before implementing the appropriate EU legislation in line with the requirements of the local market and,
- contributing to several important collaborative initiatives, including the European Commission's Sustainable Finance Action Plan (SFAP).

The MFSA is actively looking into the major regulatory changes that come with sustainable finance, in line with the policy work which is being carried out by the current EU Commission. As Malta's single financial services regulator, the MFSA is approaching this area from a cross-sectoral viewpoint in order to increasingly integrate sustainable finance into its ongoing supervision.



The MFSA is proactively meeting its challenges through the implementation, in 2019, of its three-year Strategic Plan which is upgrading and extending its capabilities and operational effectiveness. The Plan is based on seven pillars, termed cross-sector priorities, namely:

- governance, culture and conduct;
- combatting financial crime, money laundering and terrorism financing;
- financial stability and sustainability;
- technology and innovation;
- cybersecurity and resilience;
- · organisational and operational capacity; and
- conduct supervision.



Click here to go through our three-year Strategic Plan in more detail.

Action plans based on these cross-sectoral priorities translate into **sector-specific priorities** relating to sectors falling under the purview of the MFSA, namely credit and financial institutions, insurance and pensions, securities and markets, capital markets and trustees and corporate service providers.

This sets the context for the review of the Authority's activities in 2019 and the expected outcomes in future years.

11

The MFSA's Strategic Plan is to upgrade its operational effectiveness.



Governance, Culture and Conduct

The MFSA has set itself the highest benchmarks and standards of governance, risk management, culture and conduct and expects the same from regulated entities. This is the basis of increased accountability, market trust and transparency in the industry and has been implemented through the establishment of statutory, administrative bodies and standards.

As part of its transformation programme to achieve its strategic objectives and also address recommendations made by international institutions, the MFSA embarked on an ambitious capacity-building exercise which necessitated, on occasions, the outsourcing of expertise through the engagement of external consultants to provide immediate resources.

Regulatory support also needed to be sought (a) as a direct result of the exceptional supervisory measures taken by the Authority during 2018 and 2019, which called for the appointment of Competent Persons to carry out the highly-specialised work that was required; and (b) to strengthen resources and assist in the upskilling of competencies in the areas of AML/CFT Supervision.

The increased investment in outsourced resources, in the absence of the required level of expertise within the Authority, particularly in the areas of financial crime compliance and terrorism financing, dovetails with the MFSA's strategic objective of being a more effective regulator.

The MFSA has set itself the highest benchmarks and standards of governance, risk management, culture and conduct and expects the same from regulated entities.

The Development of a Corporate Governance Framework

The MFSA articulated a Corporate Governance Framework in 2019 to define and distinguish between the roles and duties of its Board of Governors and those of the Executive Committee, and the various constituted internal governing bodies. Notably, the Framework provides for strengthened roles for the Risk and Audit Committees to enable the Board of Governors to better exercise their ultimate responsibilities in these two fields. The Authority's organisational structure has also been strengthened by the provision of two Statutory Committees: one focused on supervision and the other on enforcement.



Click here to go through our <u>Corporate</u> <u>Governance Framework</u> in more detail.

The Statutory Committee on supervision is a Regulatory Committee (RegCo) established to discuss all supervisory issues and to regularly update the Executive Committee. It is chaired by the Chief Officer for Supervision who has been delegated the power to take supervisory decisions, in consultation with RegCo, composed of the Heads (and

in the absence of a Head, the most senior member of the function) of the Banking Supervision, Insurance and Pensions Supervision, Securities & Markets Supervision, Conduct Supervision, Virtual Financial Assets, Supervisory ICT & Cybersecurity Risk and Financial Crime Compliance functions.

The Statutory Committee focused on enforcement acts as the Enforcement Decisions Committee established under amendments to Article 11 of the MFSA Act. It is appointed by the Board of Governors and is independent of the Executive Committee. It is empowered to take decisions on any recommendation for enforcement action brought before it by the Chief Officer responsible for Enforcement.

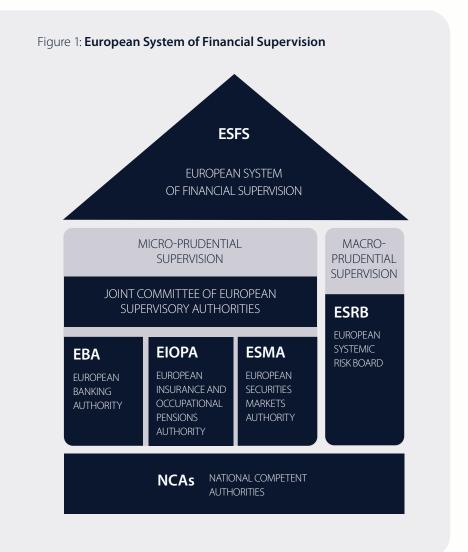
Participation in the European System of Financial Supervision

A high quality and effective regulatory framework is essential in ensuring licensed entities operate to high standards.

The European System of Financial Supervision (ESFS) was created in 2010 as a decentralised, multi-layered system of micro- and macro-prudential authorities which ensures uniform and sound financial supervision in the EU. Its main objective is to ensure that the rules applicable to the financial sector are adequately implemented across Member States in order to preserve financial stability, promote confidence and provide protection for consumers. The objectives of the ESFS also include developing a common supervisory culture and facilitating a single European financial market.

The ESFS consists of the European Systemic Risk Board (ESRB), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA), the Joint Committee of the ESAs (JC) and national supervisors.

The MFSA is represented at the ESMA, EBA and EIOPA Board of Supervisors and the ESRB General Board which are the main decision-making bodies of these authorities. In addition, MFSA staff also engage



3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

Financial
Statements

Statistical
Compendium

9 Appendices

with around a hundred working groups including standing/steering committees, panels, networks, task forces, project-groups and other sub-groups. These are characterised by different mandates, terms of reference, eligible participation, duration, seniority and/or reporting lines, amongst other criteria.

Following the adoption of a new set of regulations, 2019 has seen a reinforcing of the role and powers of the ESAs, that will now play an increased role in achieving convergence of supervisory outcomes to ensure a level playing field for financial institutions and investors in the EU. The new rules have concentrated powers to the EBA in antimoney laundering supervision of the financial sector.

As a Eurozone country, Malta is also part of the Banking Union. Consequently, the Authority also forms part of the Single Supervisory Mechanism (SSM) and participates in the decision-making mechanism of the SSM Supervisory Board established within the European Central Bank (ECB). It also forms part of the Single Resolution Mechanism (SRM) through its participation in the Plenary Session of the Single Resolution Board (SRB).

The MFSA has been gradually stepping up its contribution within these fora to help achieve high quality regulation and supervision and is committed to continue investing in this aspect of its role by engaging proactively and enhancing collaboration.

The MFSA has been gradually stepping up its contribution within these fora to help achieve high quality regulation and supervision.

A New Risk Management Function

In 2019, Risk Management, responsible for internal risk analysis and mitigation, was set up as a separate function within the Authority. The team is responsible for the risk control framework of the Authority, providing strategic input and direction regarding its risk appetite. It ensures compliance with ESAs' risk management requirements and proposes improvements in internal processes and procedures from risk and business performance perspectives. In 2019, the team carried out a sectoral risk analysis of licensable sectors, to support a riskbased supervisory approach. Following this exercise, the Authority published a Risk Appetite Statement to document the most significant risks it is exposed to, and to outline its approach towards managing these risks. The Authority advocates a low risk threshold, which is translated into its emphasis on integrity, trustworthiness, public accountability, independence and excellence, with a constant investment in the nurturing of staff and their knowledge. This is articulated in the Authority's **Risk Culture Statement** which serves as a catalyst for a proactive approach, whereby risk is appropriately identified, assessed, communicated and managed across all levels of the entity. In practice, during 2019, the MFSA continued to focus on enhancing its resource capabilities to maintain residual supervisory and operational risks at acceptable levels.

11

During 2019, the MFSA continued to focus on enhancing its resource capabilities to maintain residual supervisory and operational risks at acceptable levels.



Click here to read our <u>Risk Appetite Statement</u> and <u>Risk Culture Statement</u> in more detail.

A key element of the risk management approach adopted by the MFSA is the Three Lines of Defence model. Figure 2 shows the way in which this model is being integrated into the governance and executive structures of the Authority. Management activities that own and manage risk through internal controls are the first line of defence. The Risk Management and Compliance functions that oversee the management of risk in the Authority constitute the second line. The Internal Audit function is the third line of defence, providing independent assurance to the Board on the adequacy of risk governance.

During 2019, the Internal Audit function was subject to an External Quality Assessment (EQA) aimed at fostering best practice, also by ensuring independence and adequate resourcing. In the course of 2019, Internal Audit identified and assessed the Audit Universe, which contains all the MFSA's activities, systems and projects that contribute to managing risks. It consequently developed a three-year strategic internal audit plan, taking a risk-based approach.

The Authority is embedding a risk-based supervisory culture in its governance and operational approaches. During 2019, this has resulted in enhancements in the authorisation process and in enforcement actions.

Figure 2: Three Lines of Defence Model **Board of Governors Risk Committee Audit Committee Executive Committee** First Line of Defence Second Line of Defence Third Line of Defence **Risk Owners** Independent Assurance **Risk Oversight** External Audit Management Controls Internal Audit Risk Management Operational Risk Internal Controls Management Risk-Based Risk Officers Supervision Compliance General Data Protection Regulation (GDPR) Customer Relationship Management System (CRMS) Data Protection Officer (DPO)

3 How We Are Structured 4 What We Regulate

5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

Statistical
Compendium

9 Appendices

The Introduction of Additional Verification Mechanisms in the Authorisation Process

The strengthening of Malta's position as a financial services jurisdiction significantly depends on changing its compliance culture within the financial services industry with a relentless focus on managing risk, enhancing conduct and prudential oversight and ongoing supervisory engagement.

This process starts at authorisation stage, which has been significantly strengthened throughout 2019. Notably, the MFSA introduced additional verifications during the authorisation processes, with a focus on the shareholding structure, governance framework (including key functions), internal controls and business models presented.

The MFSA has introduced additional verification mechanisms during the authorisation process, in line with the MONEYVAL recommendation to give due consideration to the wider ML/FT risks associated with the ownership structure.

... relentless focus on managing risk, enhancing conduct and prudential oversight and ongoing supervisory engagement.

The MFSA has also published guidance with respect to "fit and proper" procedures to be applied at all stages of onboarding processes, setting out due diligence expectations for licence applicants. Further guidelines and commitments will be established by the MFSA in order to facilitate the whole authorisation process and expectations.

Enforcement Action

During the past year, the Enforcement Directorate focused on investigating licence holders who have, or were suspected of having, committed compliance failures, misconduct or any other breach of the financial services legislation and undertaking appropriate regulatory action as deemed necessary.

Guidelines on Cryptocurrencies as well as Scam Detection Guidelines were issued during the year under review, in order to alert the public and protect consumers.

Furthermore, in order to strengthen and increase efficiency, the Authority has set up a centralised due diligence function within the Enforcement Directorate to assess the probity of approved persons, both at onboarding stage, and on an ongoing basis.

Guidelines on Cryptocurrencies, as well as Scam Detection Guidelines, were issued.









The administrative measures, including penalties and directives, imposed by the Authority in 2019 on licensed entities for various breaches of financial services legislation can be viewed in Appendix 7.

Enforcement action taken by the MFSA is made public through the <u>Administrative Measures and Penalties</u> section on its website. The <u>Public Warnings</u> and <u>Notices</u>, which concern unauthorised or illegal activities in financial services and fraudulent schemes related to virtual currencies, are also published on the MFSA website. Such Warnings and Notices are circulated to the press and shared on social media platforms.



Click here to access the <u>Administrative</u> <u>Measures and Penalties</u> section, <u>Public Warnings</u> and <u>Notices</u>.

Combatting financial crime, money laundering and terrorism financing

The MFSA has made combatting financial crime, money laundering and the financing of terrorism a key strategic priority. Malta's latest National Risk Assessment (2018) highlighted the threats of deficiencies in anti-money laundering (AML) and counter-terrorism financing (CTF) frameworks to the stability of the industry and the economy.

The MFSA is embedding the fight against financial crime in its organisational culture by focusing on training and awareness, whilst further strengthening the coordination and cooperation with other relevant local and international bodies. The key measures contributing to this cross-sectoral priority implemented in 2019 are amplified as follows.

The Launch of an AML/CFT Strategy

Malta's National Risk Assessment has highlighted the need for action to be taken to mitigate financial crime risks across all sectors in Malta. Towards this end, and following a consultation exercise, the MFSA has launched its AML/CFT Strategy.

The Strategy sets out the role of the Authority in relation to fighting money laundering and terrorism financing, and details the principles underpinning its AML/CFT supervisory approach, explaining how these are reflected across authorisation, supervision and enforcement activities.



Click here to read our <u>AML/CFT Strategy</u> in more detail.

The Establishment of a Financial Crime Compliance Team

The establishment of a specialised and dedicated team on Financial Crime Compliance (FCC) within the conduct and supervisory activities of the MFSA is aimed at accelerating the Authority's effectiveness in detecting and responding to risks, or instances of misconduct, by supervised firms. **2019 saw a significant development of competencies and skills within the FCC team.**

The team has been supported by experts from a world-class consultancy firm, who provided training and shadowing during onsite visits and reviews. As a result of this increased investment in outsourced resources, these experts were integrated within the MFSA's structures, acting as a temporary but critical transition device. The team provided not only immediate resources and expertise augmentation but also on-the-job coaching and hiring support to create a stronger permanent Financial Crime Compliance setup at the MFSA. This initiative enabled the Authority to increase the number of inspections and reach unprecedented quality in the investigative work which it carries out as part of its enhanced approach to combatting money laundering and terrorism financing.

The FCC team is engaged throughout an entity's supervisory life cycle, starting from the authorisation process and continuing through

The FCC team is engaged throughout an entity's supervisory life cycle.

the prudential and conduct supervisory activity. At authorisation stage, the MFSA is insisting that firms seeking authorisation must have a structured AML and CFT framework which is sufficiently transparent to facilitate review by the MFSA or other competent authorities. It is also essential that firms have designated and appropriate resources to prevent, detect and deter financial crime and terrorism financing.

During 2019, the MFSA has been investing intensively in the competencies and skills of its staff, also by engaging external consultants which is in keeping with MONEYVAL recommendations related to the need of resource augmentation.

Inculcating AML/CFT Risks in the Supervisory Model

During 2019, the MFSA intensified its investment in developing a risk-based model to be used in managing supervisory efforts. This will form part of a wider risk-based ranking framework for regulatory supervision being developed with the assistance of external consultants. The first phase of development involved a sectoral risk analysis. The MFSA is currently working on the second phase of this model, involving an entity risk analysis. More specifically, each applicant and licence holder is assigned a risk rating, thereby allowing the Authority to assess whether an applicant's risk rating is within the risk appetite of the MFSA.

In this context, the MFSA studied potential financial crime and money laundering risks arising from business models adopted by licensed entities. Prudential supervisors are being involved in discussions at Euro area level aimed at including, to the extent possible, AML/CFT

The MFSA has increased its interaction with the FIAU to ensure that, following prudential visits, the necessary remedial action is delivered.

oversight in prudential supervision. The prudential supervisors have further increased their interaction with the Authority's FCC team and with the Financial Intelligence Analysis Unit (FIAU).

Thematic reviews are also planned to better understand sector-specific money laundering, bribery and corruption risks and determine how firms are managing and addressing such risks while providing guidance on good practice which should be implemented by regulated firms. The MFSA will actively monitor and manage business-related risks pertaining to licensed virtual assets and cryptocurrency businesses.



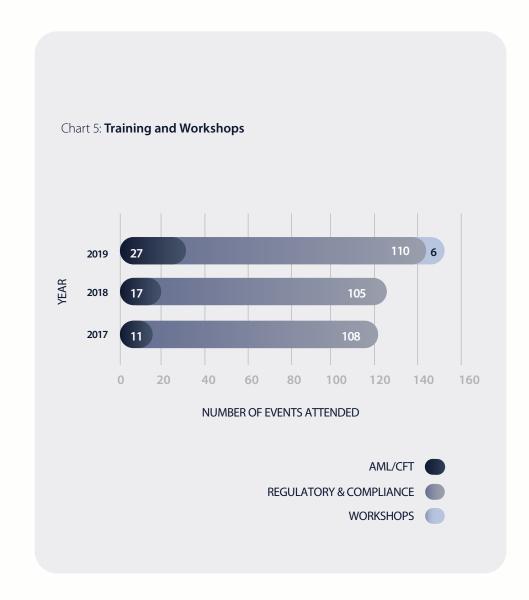
MFSA intensified its investment in developing a risk-based model to be used in managing supervisory efforts.

A Renewed Focus on Training and Awareness

The MFSA has, during 2019, redoubled its training and awareness efforts on FCC and AML matters, including through cooperation with other local and international bodies. The need for sectoral supervisors to continue enhancing their knowledge of AML/CFT risks had also been a MONEYVAL recommendation.

In January 2020, the Authority organised industry workshops, aimed at assisting entities in their efforts to protect themselves from being used as vehicles for financial crime. The sessions, which were attended by over 300 industry stakeholders, were organised in collaboration with the Authority's consultants.

MFSA staff members participated in almost 2,000 training hours in 2019, provided by specialists in the field of financial crime and money laundering. In addition, FCC employees delivered 255 hours of training on the same topic to internal regulatory functions, with the intent of achieving a holistic approach towards supervision. During the year, staff members from different functions had the opportunity to participate in Financial Investigative Techniques training organised by the Internal Revenue Service (IRS), a U.S. government agency, which knowledge was subsequently shared, through workshops, with other relevant authorities in Malta.



Other events organised by the Authority included specialised training on AML issues in conjunction with the U.S. Commodity Futures Trading Commission (CFTC) and a forum on financial integrity focusing on public-private information-sharing in conjunction with the U.S. Embassy in Malta. The forum saw major financial institutions, leaders in the private sector and key government financial regulators discuss how the sharing of financial intelligence can help in the fight against financial crimes.

Higher focus is being placed on any "red flags" which could lead to AML issues.

Engagement through Onsite Visits

The MFSA achieved unprecedented scrutiny levels in the 25 AML-focused onsite inspections that were conducted at licensed entities in 2019. The greater number of these visits were carried out by the FCC team, on behalf of the FIAU, thereby further strengthening information flow between the FIAU and the MFSA prudential and conduct supervisory functions. The FCC function is also in the process of executing a supervisory programme driven by the FIAU risk model and focused on entities which require higher supervisory efforts.

With respect to conduct-related inspections, higher focus is being placed on any "red flags" which could lead to AML issues and transactions which might involve high-risk clients and jurisdictions. Furthermore, inspections have been aligned with the ESMA Common Supervisory Action Programme. In view of the higher risk of certain vehicles being used for money laundering and terrorist financing, the Conduct Supervision team carried out several onsite inspections at licensed trustees and Company Service Providers (CSPs) focusing on business and client risk assessment and client onboarding checks and processes.

The Authority also continued to further develop the Trusts Ultimate Beneficial Ownership Register (TUBOR) which is a requirement emanating from the 4th AML Directive. This

comprised onsite inspections, focusing on legislative compliance, relating mainly to reporting and verification of Ultimate Beneficiary Owner (UBO) information. The findings of these inspections formed the basis of a thematic review, which results were subsequently communicated to the industry to set out the Authority's expectations on reporting obligations. In addition, the Conduct Supervision team was also involved in the legislative amendments required to transpose the changes introduced by the 5th AML Directive, in so far as they affect the TUBOR. In January 2019 the Authority launched the online portal for this function. An internal automated system was also developed to extract and collate specific data from Annual Compliance Returns submitted by trustees and CSPs.

The MFSA issued a Guidance Document to provide further details on the "fit and proper" assessments conducted by the Authority.

Publication of Guidance Document relating to "fit and proper" assessments

Fit and proper controls are a means of raising public confidence in the integrity of the financial services system and are a key element of an effective supervisory regime. **During 2019, the MFSA issued a Guidance Document to provide further details on the "fit and proper" assessments conducted by the Authority.** Through these assessments, the MFSA evaluates competence, reputation, solvency, conflicts of interest and independence of mind and time commitment. This is another step in the MFSA's efforts to enhance AML supervision and tackle international challenges, an objective which has also been targeted through the publication of guidance related to <u>Politically Exposed Persons (PEPs)</u> in late 2018, which outlined and provided information on the application of Enhanced Due Diligence measures to be taken in the case of PEPs, family members and close associates.



Read more about our Guidance Notes: <u>Note</u>
1: Guidance on the fitness and properness
assessments applied by the Authority and <u>Note</u>
2: Guidance on Politically Exposed Persons.

How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/ Financial Statements Statistical
Compendium

9 Appendices

The MFSA has, during 2019, redoubled its training and awareness efforts on FCC and AML matters.

Strengthened mechanisms to address FinTech risks

The MFSA implemented a Virtual Financial Assets (VFA) Framework which goes above and beyond the provisions of the 5th Anti-Money Laundering Directive. The VFA Framework imposes the requirement of implementing a Live Audit Log which stores, in real-time, all Know Your Customer (KYC) and transactional data. It also obliges VFA Agents to carry out full fit and proper checks on their prospective clients prior to onboarding them. The appointment of Money Laundering Reporting Officers (MLROs), VFA Agents and VFA Service Providers is subject to the successful completion of an interview, which is carried out jointly by MFSA and FIAU officials.

The MFSA has partnered with a world-renowned blockchain security firm, that develops cryptocurrency intelligence solutions, to monitor and manage business risks related to Malta licensed virtual asset businesses and cryptocurrencies. Through this partnership, the MFSA has implemented a blockchain analysis tool which has put the Authority in a better position to identify fraud, prevent money laundering and the funding of terrorism. This solution continuously rates the risks of cryptocurrency businesses to protect consumers, investors and business partners.

As a result, the Authority is able to trace the origin of crypto assets, monitor inflows and outflows of VFA operators, and assist in

establishing the risk profile(s) of, as well as supervising, prospective VFA applicants. Given that technology is most often an enabler for ML/FT in this field, a clear example being ransomware, the MFSA also issued guidelines on cybersecurity and has imposed Systems/IT audit requirements on operators under the VFA framework.

At a national level, the MFSA has worked closely with the FIAU and significantly contributed to the carrying out of a Gap Analysis between the Financial Action Task Force (FATF) updated Recommendations and the VFA framework. The two Authorities have also jointly published guidelines for credit institutions, payment institutions and electronic money institutions on opening accounts for FinTechs. The Authority has also worked closely with the National Coordination Committee (NCC) and other authorities on the drafting of the sector-specific National Risk Assessment (pertaining to virtual assets and related service providers).



Click here to read more about our <u>Guidance</u> <u>Document for Credit Institutions</u>, <u>Payment Institutions and Electronic Money Institutions</u> <u>opening accounts for FinTechs</u>

Financial stability and sustainability

The Authority's implementation of macro-prudential policy towards financial stability and sustainability involved a number of activities during 2019:

Inclusion of the Financial Stability Objective within the MFSA Act

In 2019, the MFSA Act was amended in order to formally give the Authority the mandate to safeguard financial stability, in collaboration with the Central Bank of Malta. Effective cooperation between the two institutions is ensured through the establishment of the Joint Financial Stability Board (JFSB) where risks are identified, and policy actions agreed upon.

Focus on Systemic Risks

The Financial Stability function has, in 2019, prioritised macroprudential supervision of financial services and a review of the interconnectedness of financial services operations. This enables the evaluation of shocks propagating across the financial sector and the real economy, hence translating into systemic risks. This involved the development of models, risk metrics and an extension of their coverage across different sectors. Bilateral communication across supervisory functions is essential in this process to make the best use of supervisors' expertise and experiences in observing synchronous individual patterns that can potentially threaten the system. The responsibilities carried out by the Financial Stability function are being supported by investments in Supervisory Technology, Business Intelligence and analytical tools.

The monitoring and analytical tools built by Financial Stability feed into the development of thematic studies addressing specific risk areas, make recommendations on possible supervisory review and/or policy action and, when necessary, on the design of preventive or corrective policies. In fulfilling these responsibilities, the Financial Stability team liaises with both international and national authorities.

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

Statistical
Compendium

9 Appendices

Enhancement of the Macro-prudential Toolkit

In line with the international drive to complement micro- with macro-prudential policy, the authorities responsible for financial stability continued to augment the macro-prudential policy toolkit during 2019. This featured **the introduction of Borrower-Based Measures aimed at strengthening the resilience of lenders and borrowers against unfavourable economic developments in the real estate sector.** The policy measure introduces limits on specific lending criteria adopted by lenders, including the Loan-to-Value at Origination (LTV-O) ratio, stressed Debt-Service-to-Income at Origination (DSTI-O) ratio and maturity. These measures are intended to complement the existing policy instruments implemented by the domestic authorities and the credit risk mitigation tools adopted by the banks.

The revision of the Other Systemically Important Institutions (O-SII) buffer methodology further strengthened the macroprudential toolkit. The buffer acts as a capital surcharge that is applied to identified domestically significant institutions based on their importance to the financial system.

In both cases an industry consultation was carried out prior to implementation.

Strengthening the Internal Capacity of the Financial Stability Unit

Members from the Financial Stability function attended various training courses, locally and abroad, including those organised by the Malta Bankers Association (MBA) and the "Big Four" accounting firms.

Furthermore, the function continues to actively participate in European working groups. Within the ESFS context, staff directly contribute to the work carried out by the ESRB, focusing on systemic risk identification and macro-prudential measures.

In line with the international drive to complement micro- with macroprudential policy, the authorities responsible for financial stability continued to augment the macroprudential policy toolkit.

Conducting Detailed Studies on Financial Stability Issues

The Financial Stability team carries out in-depth studies on areas deemed to merit higher supervisory attention. Apart from the annual Financial Stability Monitor report, which is an internal report that highlights the key risks and vulnerabilities in the sector, a number of detailed studies were carried out during 2019. These studies involved the application of a network model to quantify the losses realised in the domestic financial sector as a result of the potential default of a given entity, an assessment of shadow banking activity, an exploration of the most prevalent systemic risks identified by the Maltese banking industry, an analysis of trends and risks in the Maltese Alternative Investment Fund Managers (AIFM) and an evaluation of insurance companies' investment behaviour.

Other sector-specific supervisory units also worked on financial stability issues. In 2019, the Securities and Markets Supervision team continued to monitor the prudential requirements relating to capital adequacy and the general financial soundness of regulated entities through the review of financial documentation. Furthermore, the Banking Supervision team worked on the review of the Non-Performing Loan reduction plans self-assessments carried out by the in-scope banks, in line with the requirements of Banking Rule BR/09.

The Insurance Supervisory team also contributed to this cross-sectoral priority by conducting a number of thematic reviews, chiefly relating to Low Margin, Corporate Bonds and Return on Equity (ROE)/ Profit Margin. In the coming year, further actuarial thematic reviews will be conducted across the entire insurance market covering financial stability aspects such as the combined loss ratio, reinsurers credit rating and underwriting controls. In addition, the actuarial team within this function is working towards enhancing the Prudent Person Principle (PPP) framework by carrying out a continuous assessment of liquidity, security, profitability and diversification of the insurance sector.



Read more about one of the publications issued by the Financial Stability function

- <u>Systemic Risk: The Maltese Banking Industry's Perception</u>

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

Statistical Compendium

9 Appendices

Ensuring Effective Resolution and Crisis Management

In 2019, the Resolution team contributed actively to the resolution planning activities for systemic banks, in collaboration with the SRB, which has the ultimate responsibility for these banks. Data from banks was collected, verified and analysed, together with other information obtained from credit institutions and the Banking Supervision function within the MFSA, to update the data within resolution plans in conjunction with the SRB. Communication with the SRB and the banks concerned, consisting of bilateral meetings and workshops, was constant.

Resolution plans for non-systemic banks operating in Malta were finalised in 2019. This exercise was extensive and included data collection and interactions with non-systemic banks. During 2019, the Resolution function published its first two Circulars informing the market on new obligations introduced by the new Capital Requirement Regulations (CRR2) and the Commission Delegation Regulation on regulatory technical standards.

Discussions on crisis management issues were also held with other authorities. Advice and technical support were also provided to the Ministry for Finance on issues related to resolution. Support was also given to the Depositor Compensation Scheme and Investor

Compensation Scheme, given the synergies that exist between the two.

Furthermore, in line with the IMF's FSAP recommendations, the MFSA is engaging in the alignment of bank insolvency to the broader insolvency framework and reviewing recent cases of licence withdrawals. Initial proposals, both on short-term measures to eliminate current overlaps and grey areas in the bank insolvency framework, as well as on longer term reforms to improve administrative bank insolvency regime and restructure the Resolution team and its responsibilities, will be made. The Resolution Committee of the MFSA is also developing proposals on the shift of responsibility for decisions on bank insolvency and liquidation and post-licence revocation. Such proposals are then followed up with the Resolution Authority.

In line with IMF recommendations, the Resolution Committee of the MFSA is developing proposals on shifting the responsibility for decisions on bank insolvency and liquidation and post-licence revocation from its supervisory function to its resolution function.

5

Our Cross-Sector

Priorities

What We

Regulate

Technology and Innovation

Chief

Executive's

Statement

Chairman's

Foreword

In the area of technology and innovation, the MFSA has taken a number of key steps in 2019 within the overall context of its Strategic Plan. The Authority launched its Technology and Data Management strategy, by restructuring its Technology team, setting up a separate Data Management & Business Intelligence function, and initiating a series of multi-year projects for the complete digitisation and digitalisation of the Authority's business processes. These were essential steps in a process which will see the Authority invest heavily in a new Supervisory Technology (SupTech) that will enhance its future efficiency and cost-effectiveness.

3

How We Are

Structured

On the innovation front, in the course of 2019, the Authority launched its <u>Fintech Strategy</u> and published a <u>consultation paper on Security Token Offerings Policy</u>. Various key measures contributing to this cross-sectoral priority were implemented in 2019.

Restructuring Technology while investing in Data Management

In 2019, the Technology team was reorganised to improve technology governance, delineate better functional expertise in IT operations and strengthen information systems management and development. The Authority recognised the strategic importance of data-driven supervision, and consequently the need for a function dedicated to data management, data governance, and enhancing data quality and business intelligence across the whole organisation.

The Data Management and Business Intelligence function brings a stronger focus to data quality and puts the Authority on the forefront amongst European regulators in terms of data supervisory oversight. A roadmap has been established for the implementation of centralised data governance and policies, as well as a new suite of data management platforms and business intelligence tools for automating the Authority's supervisory processes and enabling advanced analytics. In the innovation space, the Strategy, Policy & Innovation Directorate was set up, which is home to a number of key development areas, including the regulatory sandbox and the innovation hub.

Chief
Executive's
Statement

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/ Financial Statements Statistical
Compendium

9 Appendices

Data Driven Supervision

Data driven supervision is an approach based on data analysis, which seeks to extrapolate emerging or underlying trends to identify risk sooner. As regulators around the world contend with ever-increasing data volumes and the simultaneous transition to risk-based supervision, it has become increasingly critical for financial supervisors to adopt advanced digital technology and data analytical techniques to enable effective supervision.

The MFSA's technology strategy places formal data governance and centralised data management at its core to support a datadriven supervisory approach. The newly set-up team is tasked with The MFSA's technology strategy places formal data governance and centralised data management at its core.



Over the next 2 years, the Authority will take data management to the next level. establishing the right data governance processes and policies, automating the orchestration of all supervisory-related processes, as well as providing advanced supervisory insights and risk-based analytics required for effective supervision and subsequent enforcement. Over the next two years, the Authority will take data management to the next level by implementing machine learning techniques.

2 Chief Executive's Statement 3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

Statistical
Compendium

9 Appendices

Embarking on the Digitisation and Digitalisation of the Authority's Business Processes

The restructuring of the Technology team, the setting up of a new Data Management and Business Intelligence function, and focused project management through the Programme Management and Quality Assurance function are at the heart of the organisation's transformation journey.

This has enabled the Authority to launch its investment programme in line with the Technology and Data Management strategy, bringing the MFSA a step closer to becoming a leading, forward-looking financial services regulator.

The Technology and Data Management strategy involves the implementation of a Supervisory Cycle Management System, the implementation of an Enterprise Data Warehouse and a new Business Intelligence layer to address data management and business

Through its IT Strategy, the MFSA will be enhancing data management, workflow automation, business intelligence and analytical tools.

intelligence, the transition to a hybrid cloud environment for enhanced office productivity and employee mobility, investment in new Business Support systems, modernisation of current IT infrastructure and higher investment in Information Security.

The digitisation and digitalisation of the Authority's business processes are bringing it a step closer to becoming a leading, forward-looking financial services regulator.

Launching a New Website

A new public website was launched in 2019, centralising information previously dispersed across different websites and documents, increasing accessibility, public reach and transparency.

The changeover to the new website saw a surge in visitors' numbers and page views during the year, with unique visitors having doubled over 2018.

In 2019, users from over 200 different countries visited the website, contributing to over 3.5 million page views. The bulk of these visits

Figure 4: MFSA Website in Numbers



Unique Visitors 2019 407,271 2018 201,652



Total Page Views 2019 3,548,472 **2018** 2,957,261

came from the United Kingdom, France, United States of America, Germany, Italy and Switzerland. These numbers further reflect the wide-reaching dimension of Malta's financial services jurisdiction, confirming the strong interest and following from top financial centres around the world, as well as from a growing number of emerging hubs. Almost a quarter of users accessed the MFSA website via their mobile.

The changeover to the new website saw a surge in visitors' numbers and page views during the year, with unique visitors having doubled over 2018.

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

Statistical Compendium

9 Appendices

Other Technology Investments

During 2019, the Financial Services Register, a major source of information for licence holders and practitioners alike, was upgraded with a user-friendly design and more accurate data. New and upgraded systems were introduced to enable the MFSA to meet obligations set by the ESAs, with the most significant being: the automated integration to EIOPA's Insurance Undertakings Register and EIOPA's Group Register; electronic tracking of AIFM submissions; fully-automated European Market Infrastructure Regulation (EMIR) data-parsing and storage for Derivative Transactions; and updates to the onerous Markets in Financial Instruments Directive (MiFID) II system.

In 2019, new operational systems which support the Authority's core functions were also launched or upgraded with several fundamental products. The entire database system was upgraded to the latest version, with High Availability and Disaster Recovery sites configured to minimise risks of data loss, reinforce security and ensure business continuity.

During the year, IT infrastructure, and end-user equipment, was upgraded to enable employee mobility and teleworking without compromising on security, confidentiality and data integrity.

IT infrastructure, and end-user equipment, was upgraded to enable employee mobility and teleworking without compromising on security, confidentiality and data integrity.

Other technology investments covered cybersecurity, interfaces with Government databases for the purposes of enhanced due diligence, software upgrades and disaster recovery arrangements.

During 2019, the entire database system was upgraded, and a new Power Business Intelligence system was set up.

4 What We Regulate

5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

The Publication of the FinTech Strategy

The MFSA is embracing the digital transformation affecting the financial services sector and implementing a holistic and long-term approach targeting innovation, growth and competition in the financial services market. More specifically, this is intended to establish Malta as an international FinTech hub, and, ultimately, contribute to the long-term success of the Maltese financial services sector. The Authority published its FinTech Strategy for consultation in January 2019, and the Strategy document was issued in May, setting an approach to support and enable financial service providers to invest in technology and innovation whilst ensuring robust investor protection, market integrity and financial soundness.

During 2019 the MFSA registered 18 VFA Agents and following the end of the transitional period on 31 October 2019, the Authority had received 34 Letters of Intent from prospective VFA service providers seeking authorisation under the VFA framework. Under the VFA framework, VFA issuers, VFA Agents and VFA Service Providers all fall under the definitional scope of a 'subject person' in terms of Regulation 2 of the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR) (SL 373.01 Laws of Malta).

The Authority subsequently conducted a <u>consultation exercise</u> in relation to a Regulatory Sandbox and to set up a framework for the regulatory certification of RegTech solutions.

Figure 5: **VFA Framework**



18 VFA AGENTS

34

LETTERS OF INTENT RECEIVED FROM PROSPECTIVE VFA SERVICE PROVIDERS

MFSA Fintech Regulatory Sandbox

The FinTech Regulatory Sandbox is one of the FinTech Strategy's main strategic actions. Published initially within the Pillar 1 - Regulations Consultation Document, the objective of the proposed Sandbox is to foster sustainable FinTech innovation through certainty and knowledge-sharing, providing for a regulatory approach where FinTech operators may test their innovation/s for a specified period within the financial services sector, under certain prescribed conditions.

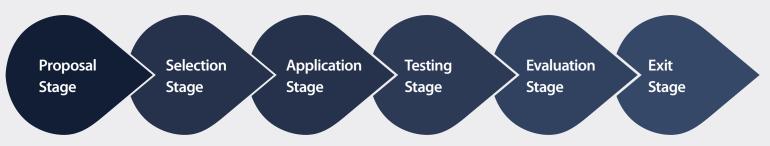
The Sandbox will be applicable to eligible FinTech service providers, FinTech suppliers and other applicants who do not fall clearly within the scope of any financial services legislation currently in force in Malta. This, notwithstanding, incumbent financial services providers and new

entrants, such as start-ups, scale-ups and technology firms, interested in participating in the Sandbox, shall have to satisfy four eligibility criteria, namely (i) innovation, (ii) need, (iii) benefit and (iv) readiness.

As illustrated in the Figure below, the proposal also identifies a predefined six-stage Sandbox Life Cycle, catering for six-and twelve-month long testing phases. The MFSA also intends to utilise the space to build its FinTech technical capacity, identify the regulatory gaps and risks of such innovations as well as determine the appropriate policy and regulatory response.

The MFSA issued its final proposal within the Pillar 1 – Regulations Feedback Statement, which also contains the proposed Rule under the MFSA Act establishing the MFSA FinTech Regulatory Sandbox, in January 2020.

Figure 6: The Regulatory Sandbox Life Cycle



Discussion Paper on Security Token Offering (STO) Policy

A discussion paper on the Security Token Offering (STO) Policy was issued for consultation by the Authority in July 2019. **The proposed STO Policy takes into consideration the evolving needs of the industry while ensuring high standards of investor protection and market integrity.** The aim of the consultation paper, which was prepared in the context of the relevant EU framework, was to obtain stakeholders' views on a policy which complements the VFA regime and continues to support innovation and new technologies for financial services in the area of STOs.

The Feedback Statement, which was issued in February 2020, will pave the way for legal certainty around STOs in the Maltese financial markets. It communicated the Authority's plans to promote innovation, by creating an optimal regulatory environment for the issuing and trading of DLT assets which fall within the remit of European securities legislation.

The Security Token Offering Policy will pave the way for legal certainty in the Maltese financial markets.

Development of New RegTech tools

A new reporting system was launched in early 2019 to improve the processes relating to the submission of prudential and financial information by banks. This tool facilitated the Authority's efforts with regard to the requirements established by the Implementing Technical Standards (ITS) on Supervisory Reporting, which emanates from the Capital Requirements Regulation. Credit institutions can now also actively keep track of their own data submissions made to the MFSA and the ECB, as well as directly receive feedback with respect to the validity of such reports.

As for the Securities and Markets function, a number of IT reporting tools, such as the Settlement Internaliser Reporting tool, the XML schema update for Markets in Financial Instruments (MiFIR), and the FinHub portal for onsite inspections, were adopted in order to allow the industry to communicate more easily and securely with the Authority. A new Business Intelligence tool has also been adopted by the Insurance Supervision team for the generation of bespoke reports to enhance data analysis, allowing staff to dedicate more time to the actual analysis of the data produced. Furthermore, the supervisory functions utilise the Licence Holder Portal to improve efficiency in the processes related to submission of qualitative and quantitative information. Some of the functions, such as in the case of Insurance Supervision, have started using the portal to receive information requested from licence holders in relation to onsite visits.

Increased Communication with the Industry and External Stakeholders

A new initiative was implemented in 2019 with the objective of engaging more effectively and frequently with the industry. Direct contact was established through three high-profile strategy briefing sessions in January, May and October. At the end of January, the MFSA launched its Vision for 2021 which marked the start of

briefing sessions in January, May and October. At the end of January, the MFSA launched its Vision for 2021 which marked the start of the Authority's transformative journey supported by an ambitious change programme focused on innovation, investment in FinTech and RegTech, modernisation of supervision, and technological development. The Vision 2021 document articulated the MFSA's approach to risk management, conduct, enforcement, and AML/CFT supervision that would be the key enablers for the Authority to address its future challenges more effectively.

11

The changes to the organisational structure were critical to create a higher level of accountability.

This Strategy briefing marked the start of a series of industry events which followed during the year. The next briefing event focused on the Authority's changes to the organisational structure which were critical to increase effectiveness and to create a higher level of accountability. The MFSA's supervisory priorities for 2019, based on the key directions of the ESAs, and revolving around a risk-based approach, were also presented, together with service improvements in the authorisation process. A more in-depth discussion focusing on regulatory issues was the highlight of the last industry event for 2019, with the participation of the President of the German Federal Financial Supervisory Authority, BaFin.

Statistical Compendium

Appendices

8

In 2019, the MFSA also organised several specific-themed events, in conjunction with other international institutions and governmental bodies, such as the US Embassy in Malta, FinTech-ho2020, IFS Malta and the Institute of Directors. Throughout the year, the Authority also maintained a constant presence at seminars, conferences and workshops organised by industry stakeholders, having participated in 48 events, both locally and internationally.

The Communications team acted as a main point of contact with external stakeholders, replying to over 2,500 queries, mostly through the website contact form, covering requests for information regarding possible licence applications and requests for assistance by consumers of financial services, students and researchers.

Figure 7: MFSA Digital Platforms in Numbers



Facebook followers 2019 2,489 2018 1.620



Twitter followers 2019 1,146 2018 890



LinkedIn followers 2019 8,010 **2018** 4,452

The Authority's social media activities continued to increase, with regular updates on Twitter, LinkedIn and Facebook. In 2019, the MFSA also launched its Instagram account, intended to connect with a younger and more diverse audience who are also users of financial services. These tools serve as an important asset of communication with the industry, attracting a following amongst professionals in the sector whilst positioning the MFSA as an employer of choice.

A completely rebranded monthly newsletter with the name of <u>MFSA NewsHub</u> was also launched in August 2019, targeting licence holders and subscribers, and featuring insights on various thematic issues affecting the financial services industry and beyond.



The MFSA organised several specificthemed events, in conjunction with other international institutions and governmental bodies.

4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

Figure 8: Communication with Stakeholders





200 CIRCULARS



23 LOCAL WARNINGS



11 CONSUMER NOTICES



48
PRESS RELEASES



17
CONSULTATION PAPERS



Cybersecurity and resilience

Cybersecurity is a key element in the provision of financial services and financial regulation. The MFSA is formulating a strong internal framework in order to ensure that it has its own sound cybersecurity posture, while working towards setting standards to be followed by any entity falling under its supervisory remit. The MFSA is currently building its Cybersecurity team to collaborate closely with the rest of the prudential supervision teams, and other directorates, to assess the cybersecurity risks and adequacy of counter measures enacted by licence holders, to minimise the risk of disruptions, data breaches and loss of data.

Key measures contributing to this cross-sectoral priority implemented in 2019 are the following.

Cybersecurity guidelines

The MFSA has issued Guidance Notes on cybersecurity within a holistic approach to data security. As a first step, **Guidance Notes applicable to Professional Investor Funds investing in virtual currencies and all entities regulated under the Virtual Financial Asset (VFA) Rulebook,** were issued. These Guidance Notes reflect the Authority's approach towards effective management of risks and the understanding of risk factors directly linked to the licence holders' operation and should be seen in conjunction with international and national recognised cybersecurity standards, and the EU General Data Protection Regulation (GDPR).

Furthermore, key initiatives related to good cybersecurity governance were implemented.



Our <u>Cybersecurity Guidelines</u> may be accessed here.

1 2 Chairman's Chief Executive's Statement

ief Ho Str

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

Statistical
Compendium

9 Appendices

Cyber Incident Notification Form

A cyber incident notification form was developed and communicated to all licence holders as part of a "cybersecurity awareness" campaign. The cyber incident notification form is used by the licence holders' information security officers to report suspected or factual loss, or any other activity that may affect the confidentiality, integrity or availability of electronic data and the underlying systems infrastructure. The notification form may be used as a preliminary response to supplement national reporting requirements and provides a resource to document initial or first response to a cybersecurity incident.

Cybersecurity Awareness

The age of technology and digitalisation has seen a dramatic increase in the sophistication of cyberattacks. Recent incidents have shown that the human factor remains the weakest link and organisations need to be constantly vigilant. Uninformed employees can unknowingly cause considerable harm to an organisation by visiting websites infected with malware, responding to phishing emails or falling prey to social engineering attacks. **The MFSA has invested in a best-of-breed cybersecurity training solution which has the world's largest library of security awareness training content, including interactive videos and quizzes.** The project was successfully

implemented with the initial cybersecurity awareness training programme earmarking specific and immediate areas of interest.

Cyber Al

There is strong potential for the use of AI to detect novel attacks and insider threats at an early stage. Unlike traditional approaches, which rely on blacklists, rules and signatures, the system uses unsupervised machine learning to observe several types of information flows and patterns, learning in real-time what is normal for the organisation. Throughout 2019, and following thorough market research, self-learning cyber AI technology was implemented and is constantly monitoring the Authority's systems to detect the most sophisticated and stealthy cyber threats that other tools fail to identify.

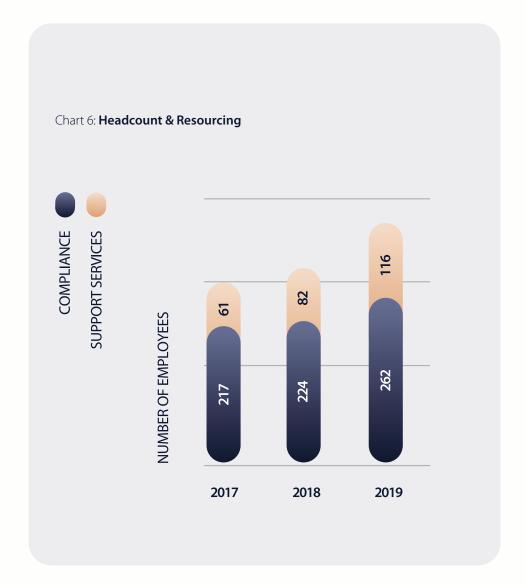
The Authority is also participating in the Consultation, launched by the European Commission, on a Digital Operational Resilience Framework for financial services, making the EU financial sector more secure. The survey, rolled out with the Consultation, is part of a process leading to a new Digital Finance Strategy for the EU.

Organisational and operational capacity

The MFSA is in the course of significantly enhancing its operational capacity and financial self-sufficiency through a five-year business plan developed in 2019. Towards this end, the **MFSA is undertaking significant investment in human resources and technology**.

In addressing the MONEYVAL and IMF recommendations calling for an increase in supervisory resources, the total number of employees at the financial regulator is projected to continue growing. The envisaged growth in human resources at the MFSA is consistent with international trends and proportionate to the size of the country and size of the sector it regulates.

Human capital is to be complemented by investment in business intelligence and knowledge management technology, hence enabling better analysis of data and knowledge-sharing within the Authority.



Key measures contributing to this cross-sectoral priority implemented in 2019 are the following:



Human Resources

During 2019, the Human Resources function re-branded its operations to People & Culture, with the intent of communicating a shift in position and approach from an administrative role, to one which places employees and culture change at the heart of its activities. In the course of the year, the Authority increased its staff complement to 378, an increase of 72 employees over the previous year. Recruiting talent with the right technical knowledge and expertise is becoming increasingly challenging as Malta was approaching full employment.

Figure 9: **Staff Complement**





The Formation of a Financial Supervisors Academy

This Academy will be set up at the MFSA to identify training needs specific to the financial services industry and deliver a yearly curriculum to train young and upcoming financial services supervisors. The Academy will provide internal training programmes for employees to enhance the depth of knowledge and skillsets and give experienced professionals the opportunity to further their technical knowledge. Besides enhancing the international network, this would serve as a knowledge-sharing experience. Through this initiative, the MFSA will also ensure that experienced supervisors are given the opportunity to continue on their professional development path, also by keeping abreast with the latest trends and knowledge in this field. The Authority's vision is also to open the Academy to the industry in future.

The Authority will furthermore be tasking its Education Consultative Council to look into skills gaps at all levels, particularly in the areas of innovation such as FinTech. The Council will be collaborating with the University of Malta and other educational institutions to develop existing or new educational programmes which cater for the specific and evolving requirements of the financial services sector.

The Academy for Financial Supervisors has an important role in catering for the specific and evolving requirements of the financial services sector.

MFSA ANNUAL REPORT 2019

4 What We Regulate



Promoting a diverse and inclusive culture

The MFSA was awarded the Equality Mark certification by the National Commission for the Promotion of Equality (NCPE), which is given to organisations that demonstrate a commitment towards best practices in the area of gender equality. The MFSA adopts a culture of diversity, inclusion and equality. In fact, around one-third of the top management-level employees are female. Additionally, **throughout 2019**, **the MFSA adopted an increasingly international outlook to recruitment, and now employs 53 non-Maltese nationals, hailing from 20 different countries.** The MFSA will continue to promote diversity and inclusion as part of its work culture, driven by its core values of integrity, trustworthiness, dependability, independence and excellence.

Figure 10: Diversified Work Culture





Local and overseas training programmes

The MFSA strives to further support its employees in their professional development through training. During 2019, the MFSA maintained its emphasis on training and staff development with around 13 employees completing a tertiary level qualification, while a further 47 employees are currently reading for a degree qualification at graduate, post-graduate or PhD level. Overall, **throughout 2019, the MFSA offered its employees around 8,175 training hours locally and around 2,102 hours in international training.**

Figure 11: **MFSA Training Hours**





4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

Statistical
Compendium

9 Appendices

The Path towards Financial Independence

The IMF emphasised the need for the MFSA to take rapid action to ensure its long-term financial independence. In order to increase the supervisory capacity of the MFSA while moving towards financial self-sufficiency, the **MFSA is in the process of revising its policy in relation to application and supervisory fees.** The bases for an effective process of revisions in tariffs and charges are to:

- achieve the required levels of revenue towards a phased-in process of financial independence from Government in line with recommendations of international institutions and enhancing the resource availability to the MFSA to ensure effective supervision consonant with improved sectoral performance and international reputation-building;
- 2. **sustain the competitiveness** of the various segments of regulated entities by ensuring that tariffs and charges remain affordable and sufficiently attractive in the international context;
- 3. **strengthen the risk-based approach towards supervision** through elements of incentivisation of risk-balanced behaviour; and

4. **supporting the consolidation of individual segments** within the regulated base where this is needed.

The proposed revisions to the fee policy also take into account the time-effort and risk appetite of the Authority. An Economic Impact Assessment (EIA) has been carried out to assess the impact of the revised fee policy on the local financial services sector and the economy at large. The EIA concluded that the revision in fees charged to licence holders is consistent with a risk-based approach to regulation, calling for increased supervisory resources and consolidation in some sectors.

The MFSA is undertaking significant investment in human resources and technology to address the gap in supervisory and enforcement capacity. 2 Chief Executive's Statement How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

Conduct Supervision

The Conduct Supervision function continued to focus on retail investor protection in 2019 through a number of educational campaigns and market consultation on new proposed rules.

Key measures contributing to this cross-sectoral priority implemented in 2019 are described below.

Mystery Shopping Exercise

A follow-up on a mystery shopping exercise conducted in 2018 was undertaken in 2019 among five credit institutions offering the Payment Account with Basic Features. The MFSA was satisfied to note considerable improvement in most of the branches visited,



The Conduct Supervision function continued to focus on retail investor protection in 2019.

with most of them offering customers the Payment Account with Basic Features. A number of recurring weaknesses were also flagged, mainly as bank representatives were not always forthcoming in providing customers with information relating to the features and characteristics of bank accounts available. An onsite inspection with particular focus on staff training was also conducted, together with desktop-based reviews on complaint-handling procedures, the terms and conditions for payment accounts and charges.



Click here to read about the findings of the <u>Mystery Shopping Exercise</u> in more detail.

Educational talks were also organised at higher secondary schools to generate awareness among students about their right for information on purchased products, especially in relation to fees.

An Increase in Onsite Visits

The MFSA significantly deepened the level of **scrutiny during onsite inspections, as well as increased the number of visits by 36%, when compared to 2018**. Indeed, supervisory visits increased from 168 in 2018 to 227 in 2019. Of the 227 visits carried out in 2019, 65% were prudential visits, 24% related to Conduct and 11% related to AMI / CFT.

More specifically, onsite inspection visits conducted by the Conduct Supervisory team during 2019 focused on:

- the implementation of the ESMA Product Intervention measures in relation to Contracts For Differences (CFDs) vis-a-vis retail clients:
- the business models and strategies of investment firms' vis-à-vis the requirement of MiFID II; and
- corporate governance and culture within trustees and CSPs, including deep-dive assessments into business and client risk assessment and corporate governance and Board effectiveness.

2019 saw a 36% increase in onsite visits and a higher level of scrutiny during onsite inspections.

In recognition of the fact that AML is a high-risk area for trustees and CSPs, several onsite inspections also focused on business models and client onboarding. A thematic review exercise focusing on compliance with the relevant reporting requirements of trusts beneficial ownership information was undertaken, with the findings communicated to the industry through a Circular, emphasising the Authority's expectations in this area.

AML is a high-risk area for trustees and CSPs and so several onsite inspections also focused on business models and client onboarding.

4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/ Financial Statements Statistical
Compendium

9 Appendices

Other Activities

During 2019, the Authority issued Rules for consultation aimed at Credit and Financial Institutions offering the Equity Release Financial Product. Preparations for this activity involved gaining a better understanding of the extent to which product oversight and governance obligations are adhered to and whether the products being offered are distributed to the type of client for which they were originally intended.



Click here to read about the <u>Rules on</u> Equity Release Financial Products.

In 2019, ESMA launched its first ever Common Supervisory Action, wherein participant National Competent Authorities (NCAs) carry out simultaneous supervisory activity by focusing on the assessment of appropriateness as carried out by investment firms. The MFSA conducted a series of focused onsite inspections to assess the application of appropriateness rules as adopted by the sampled investment firms.

The MFSA conducted a series of focused onsite inspections to assess the application of appropriateness rules as adopted by the sampled investment firms.

The Conduct Supervision team also implemented the National Product Intervention Measures with respect to investment firms providing services in relation to binary options and Contracts for Differences (CFDs). In this regard, the relevant measures were transposed in the Conduct of Business Rulebook.



Credit and Financial Institutions

As at end 2019, there were 25 credit institutions and 52 financial institutions licensed by the MFSA. These compare with 24 and 49 respectively as at the end of 2018.

Figure 12: Credit & Financial Institutions





2018 49

The total number of onsite visits at credit and financial institutions amounted to 36 during 2019, representing 16% of the total supervisory visits. These institutions **remained well-capitalised and characterised**

by ample liquidity and healthy profitability. All regulatory capital ratios of credit institutions have remained above minimum levels required by the Capital Requirements Directive (CRD IV).

The Common Equity Tier 1 (CET1) stood at 22.7% and the Tier 1 ratio remained stable at 20.8%. These compare with 22.8% and 20.8% respectively as at the end of 2018.

Credit and financial institutions remained well-capitalised and characterised by ample liquidity and healthy profitability.

As at the end of 2019, the aggregate value of total assets held by credit institutions declined by €2.35 billion to stand at €41.68 billion. This fall is primarily attributed to the activity of 'Other Banks'. As for the total assets of the core domestic and non-core domestic credit institutions, these recorded growth rates of 5.2% and 8.5% respectively during 2019.

Advances have remained relatively stable over the year under review, standing at €28.19 billion in the aggregate banking sector. At the highest level of consolidation, the Non-Performing Loans (NPL) ratio of the aggregate banking sector stood at 3.2% in 2019. In terms of deposits, the aggregate banking sector experienced an increase in deposits equal to around 6.7%.

The MFSA's Strategic Plan describes the Authority's supervisory priorities in relation to credit institutions as predominantly focused on credit risk and the efficacy of risk management policies and processes applied by supervised firms. The Authority was therefore engaged in key priority actions as follows:

- ensuring the proper management of credit risk;
- focusing on the business model and profitability risk;
- regulatory compliance and development; and
- strengthening enforcement action.



More information in the Statistical Compendium in Chapter 8.



Total assets of the core domestic and non-core domestic credit institutions recorded growth rates of 5.2% and 8.5% respectively.

Ensuring the Proper Management of Credit Risk

The proper management of credit risk is essential to safeguarding the stability of the financial market. The MFSA aims to ensure that supervised firms exercise proper conduct when assessing the creditworthiness of clients.

In this regard, the MFSA carried out an assessment of credit underwriting standards in conjunction with the ECB and other NCAs. This is supported by the credit risk assessment under the Supervisory Review and Evaluation Process (SREP) which seeks to gauge the level of risk followed by an assessment of the controls in place within the credit institution that are specific to the management of the said risk. Furthermore, the Authority followed up on Non-Performing Loan (NPL) reduction plans and accompanying bank self-assessment drawn as per the requirement of Banking Rule BR/09.

A Focus on the Business Model and Profitability Risk

The assessment of business models is carried out under the relevant SREP module. The impact of the low-for-long yield scenario is also assessed in the Interest Rate Risk in the Banking Book (IRRBB) module, using the Challenger model developed by the MFSA amongst other tools.

Profitability risk is a major risk facing the Financial Institutions (FIs) universe, notwithstanding that most licence holders register profits. A key tool adopted in this context were 'deep dives' to discuss business models with boards or senior management teams. These assessments examined specific risks emanating from business models and strategies, with a view to fostering better risk management and mitigation.

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

7 Financial Statements Statistical Compendium

9 Appendices

Regulatory compliance and development

Licence holders are always mandated to comply with applicable regulatory requirements, with particular emphasis on financial soundness (own funds) and safeguarding requirements, applicable to payment and e-money institutions only. During 2019, the MFSA worked on the revision to BR/09 - Credit risk and BR/12 - SREP, a new Rule on Internal Governance and transposing EBA guidelines, as part of the MFSA's cross-sector strategic initiative to enhance the governance set-ups within supervised entities. Amendments to the Capital Requirements Directive/ Capital Requirements Regulation (CRD/CRR), through the CRD V package, have been finalised in 2019, with the MFSA now in the process of transposing the Directive into local legislation.

With respect to FIs, groundwork has been done in 2019 to overhaul the Financial Institutions Rules and the reporting package. This would fully implement the Payment Services Directive (PSD II) and provide further clarity on regulatory requirements applicable to FIs. The MFSA is also working towards providing stakeholders with a point of reference for any regulatory matters to enhance communication with stakeholders.

Strengthening Enforcement Action

During 2019, the MFSA took administrative and disciplinary measures with respect to licence holders who have breached the financial services legislation.

Following the disciplinary measures taken with respect to Satabank plc in 2018, Ernst & Young (EY) as Competent Person, continued to manage the bank's assets and liabilities in accordance with the underlying mandate by the Authority. This included the forensic data collection and the preservation and validation of customer data. Based on the analytics performed and customer due diligence, EY conducted a segmentation of the bank's portfolio into different risk adjusted categories. The controlled release of funds, which had been launched in November 2018, based on a risk-based approach, in agreement with the Authority, continued to be implemented throughout 2019, in conjunction with the ongoing management of the bank's assets.

Following the withdrawal, in 2018, of the banking licence for Pilatus Bank plc by the ECB, in 2019, the entity continued to be managed by Mr Lawrence Connell, the Competent Person. The Competent Person had taken charge of all the assets of the entity and assumed control

Executive's

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

6 **Our Sector-Specific Priorities**

Financial Statements 8 Statistical Compendium

Appendices

of its banking and investment services business. The directives issued to the Competent Person and the entity remained in force during 2019 and continued to be so until further notice, whereby the entity was directed not to dispose, liquidate, transfer or otherwise deal with clients' assets and monies. During the year under review, the Competent Person managed the entity's administrative requirements and obligations including matters involving, among others, the entity's customers, its regulatory agencies and the Courts. During the same year, the Competent Person continued to negotiate with a borrowing customer who wished to repay loan commitments to the entity. Furthermore, negotiations continued with the MFSA's Securities and Markets Supervision function regarding a number of issues relating to the entity's Investment Services Licence.

The MFSA worked proactively towards taking timely supervisory and enforcement actions, in line with IMF recommendations.

Nemea Bank plc continued to be managed by PwC, the Competent Person appointed in 2016, who had taken charge of all the assets of the entity and assumed control of its banking and investment services business. The directives issued to the Competent Person and the entity remained in force during 2019 and continue to be so until further notice. Since being appointed, the Competent Person continued to manage the bank's assets on the basis of the mandate given by the Authority. During 2019, the Competent Person held meetings with the MFSA's Securities and Markets Supervision function on a number of issues relating to the Investment Services Licence. Throughout the year, the Competent Person continued to consider various legal options aimed at putting the entity into liquidation, a course of action that is to continue in 2020. The entity's banking licence had been withdrawn by the ECB in 2017.

MFSA ANNUAL REPORT 2019

Insurance and Pensions

The local insurance sector is composed of domestic life and non-life insurers as well as an increasing number of international investors seeking to establish insurance companies, Protected Cell Companies (PCCs) and Incorporated Cell Companies (ICCs). As at the end of 2019, there were a total of 70 insurance undertakings, up from 66 undertakings in 2018.

As for the Pensions sector, the number of licensed entities as at the end of 2019 included 54 retirement schemes, three retirement funds and 17 retirement scheme administrators, 12 investment managers, eight back-office administrators and four custodians. The total number of onsite visits carried out within the insurance and pensions sector amounted to 54 during 2019, representing 24% of the total supervisory visits.

The overall solvency position of insurance and reinsurance undertakings remains high despite a slight deterioration in the Solvency Capital Requirement (SCR) ratio for the General Business and Pure Reinsurance Sector during the year under review. As for the Long-Term Business, the SCR is estimated to have increased by 9.71 percentage points.

The profitability of the (non-life) insurance sector is assessed using combined ratios which are the sum of net claims incurred and the net operating expenses divided by net earned premiums. The Combined Ratio for both General Business undertakings and Pure Reinsurance Business amounted to less than 100% in 2019, indicating that **despite** the low yield environment, underwriting profitability remained overall positive during 2019.

Based on provisional estimates, it appears that the Pensions Sector recorded a marginal decline of 2% in the number of retirement pension schemes, with these amounting to 54 in total by the end of 2019. The total assets under the management of these schemes grew by about 17.9% during the year under review, standing at €6.31 billion.



More information in the Statistical Compendium in Chapter 8.

During 2019, the MFSA focused on the following priorities for the insurance sector.

Intensifying onsite supervision coverage

During 2019, the Insurance team within this function carried out a set of onsite inspections and desktop reviews. It also carried out a thematic governance review across the entire insurance market covering non-executive directors/committee effectiveness.

Going forward, the Insurance and Pensions Supervision function intends to introduce a fully dedicated onsite team to jointly work with the licence holders' monitoring team. Resources will significantly increase in 2020 to allow for increased intensity and coverage of the onsite inspection programme. Additionally, a restructuring plan at function level is being implemented to move away from a process-based approach and adopt a licence holder-focused methodology.

Resources will significantly increase in 2020 to allow for increased intensity and coverage of onsite inspections, thereby contributing to improvements in the sectoral risk-based supervision framework.

Escalating pensions supervisory work

The Insurance and Pensions Supervisory function is **in the process of developing templates for quantitative & qualitative data to be submitted on a regular basis by licensees**, in order to increase the level of granularity of the information currently submitted.

Enhancing cross border supervision

The Insurance Supervision function intensified its relationship and engagement with host NCAs, sharing various information, experiences and issues in relation to cross border business. This initiative enabled better understanding of the underlying risks of the sectors where undertakings are passporting in other EU and EEA member states. The function also actively participated in seven Group colleges, including two novel ones hosted by a non-EU jurisdiction.

Monitoring the BREXIT situation

Brexit is expected to have a major impact on financial markets, both for UK-based financial services entities providing their services to EU clients and vice versa. While the UK has agreed the terms of its EU departure, both sides still need to decide what their future relationship will look like. This will need to be worked out during the transition period, due to end on 31 December 2020.

The MFSA will continue to monitor the Brexit situation, assessing the implications of the future relationship between the UK and the EU on all financial sectors, and assessing the resultant challenges and opportunities. Legislation was developed and implemented (with the support of the MFSA) for the introduction of a temporary permission regime for UK-licensed investment firms and fund managers passporting into Malta, for such entities to continue providing their services to existing Maltese clients for a limited time-period, subject to specific conditions and assuming a no-deal Brexit situation.

The local insurance sector, in particular, is expected to face growth opportunities as a direct result of Brexit. Against this background, efforts had been stepped up to ensure licensed entities would be fully prepared for any Brexit scenario. A workshop focusing on the impact of Britain's withdrawal from the EU on insurance and reinsurance undertakings was organised, with the participation of the UK's Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA).

Through this exchange, officials from the PRA and FCA sought to obtain a better understanding of the individual business model proposals and gather more knowledge about the contingency plans that insurance undertakings developed in preparation for Brexit. In the banking sector, analysis was also conducted on the impact of Brexit on credit and financial institutions licensed in Malta, UK entities passporting in Malta, customers of such entities and the domestic financial system. The analysis showed that the impact is unlikely to be negative on a large, irreversible and disproportionate scale.

Furthermore, an internal working group was set up within the MFSA for the purpose of assessing the implications of Brexit on investment firms, investment funds and service providers. This working group performs assessments of the implications of potential scenarios, thereby ensuring that the local securities and markets sector is fully prepared. Throughout the past year, the MFSA published various circulars and other documentation to the public and drove the preparation of various legal instruments, including the temporary permissions regime, to cater for a possible no-deal Brexit scenario.

Looking forward, the MFSA will continue to provide guidance to the financial services industry on the Brexit situation while working on the following key fronts: keeping abreast with, and contributing to, discussions on the future relationship between the UK and the EU, identifying opportunities for bilateral work with the UK and preparing for the possibility of there being no agreement/s in place come December 2020.

1 Chairman's Chief Executive's Statement

3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

7 Financial Statements

Statistical
Compendium

9 Appendices

Securities and Markets

The Securities and Markets sector includes collective investment schemes and investment service providers which include Retail Collective Investment Schemes, primarily Undertakings in Collective Investment Transferable Securities (UCITS), Professional Investor Funds (PIFs), Alternative Investment Funds (AIFs), Notified Alternative Investment Funds (NAIFs), MiFID Firms, AIF Managers (AIFMs) and UCITS Management Companies, collectively referred to as Investment Managers and Custodians. The total number of onsite visits carried out by the Securities and Markets team amounted to 100 during 2019, representing 44% of the total supervisory visits.

During the year under review, total assets of the securities and investment services sector in Malta stood at €15.4 billion. This sector has been expanding primarily due to the low interest rate environment and changes in the global regulatory environment. In 2019, this sector was made up of 153 companies licensed in terms of the Investment Services Act (Cap 370). During the year under review, 10 new companies were licensed.

The number of prospectuses approved by the Listing Authority for listing on the Malta Stock Exchange or the European Wholesale Securities Market remained stable in 2019 relative to the previous year,

with a total of 17 issues approved. The total market turnover on the Malta Stock Exchange increased from €0.39 billion to €0.49 billion.



More information in the Statistical Compendium in Chapter 8.

In the Securities and Markets sector, the MFSA's supervisory priorities place a focus on the governance and compliance structures of supervised firms and their resilience to cyber-attacks, on the compliance to MiFID II and on ensuring that the Authority's regulatory framework appropriately addresses new market developments. With respect to capital markets, the MFSA has been working on the development of its Capital Market Strategy, focusing on revisions to the regulatory framework and enhancing its supervisory capacity and investor education.

During 2019, the Securities and Markets Supervision function undertook activities as follows.

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

7 Financial Statements

Statistical Compendium 9 Appendices

Liquidity Management Thematic Exercise

In light of the recommendations issued and work undertaken by international bodies, primarily the ESRB, the Financial Stability Board (FSB) and the International Organisation of Securities Commission (IOSCO), as well as the work being carried out by ESMA on liquidity stress testing, the Securities and Markets team will be carrying out thematic work in relation to liquidity management practices of asset managers.

Risk management practices, in particular, the liquidity management of 64 fund management companies and self-managed collective investment schemes, were assessed in 2019. This was done through a detailed questionnaire on liquidity management circulated with the industry. This was subsequently assessed and followed up by a number of thematic onsite visits.

Extensive feedback was provided by the MFSA to assist in the issuing of the Investment Firms Supervision Directive and Regulation.

Investment Firms Supervision Directive and Regulation

In January 2019, the Council of the European Union endorsed the EC's legislative proposals for prudential requirements for investment firms, specifically the Investment Firms Regulation (IFR) and the Investment Firms Directive (IFD). The Securities and Markets Supervision team participated in various meetings held in Malta and abroad, where pertinent institutions such as the European Council and the Ministry for Finance were in attendance. Extensive feedback was provided by the MFSA to assist in the issuing of this Directive and Regulation.

The MFSA will continue to examine the details of the new framework and assess how this will impact the current regime. The new framework is expected to change the authorisation and the supervision process, effectively overhauling the current framework. The Authority will transpose the requirements into the MFSA Rulebooks, with possible changes to Subsidiary Legislation. In either case, the MFSA will consult with stakeholders prior to adopting such necessary changes.

Chief
Executive's
Statement

How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

7 Financial Statements 8 Statistical Compendium 9 Appendices

Regulatory Developments

The MFSA is committed to engaging with stakeholders to determine whether any further regulation is required to ensure that its regulatory framework appropriately covers new market developments.

In 2019, the Securities and Markets Supervision team conducted in-depth comparative studies with other EU jurisdictions to assess the implementation, application and supervision of Local Firms². Following this exercise, Part BI of the Investment Services Rules was updated to introduce the Local Firms Regime. Furthermore, during the past year, the team finalised and published the Investment Services Act whereby previously applicable rules were amended to reflect the Money Market Fund Regulation. The MFSA is also following up developments at ESMA level regarding the achievement of supervisory convergence in the area of performance fees.

Throughout the past year, the team also monitored the drafting and publishing of various relevant EU instruments, in particular, those related to sustainable finance and green benchmarks, the Shareholders Rights Directive and the Cross-Border Distribution of Funds Directive and Regulation. In this regard, the MFSA carried out preliminary work in preparation for the transposition and the coming into force of such EU instruments in 2021.

The Securities and Markets team has undertaken significant investigative work and enhanced supervision activity during **2019.** The focus areas included breaches, fraud and misappropriation of funds and weak governance.

Furthermore, supervised firms are required to follow the guidelines issued by the MFSA on cybersecurity as outlined in the Authority's Strategic Plan. The Securities and Market Supervision team will engage with firms to ensure that they have allocated the required resources with the necessary skills and competencies, as well as the necessary security mechanisms to enhance their resilience to such threats and avoid the disruption of critical services.

The Securities and Markets team has undertaken significant investigative work and enhanced supervision activity during 2019.

Investigations and enhanced supervision

² A 'Local Firm' is defined under Article 4(1)(4) of CRR.

1 2 Chairman's Chief Executive's Statement

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific
Priorities

7 Financial Statements 8 Statistical Compendium

9 Appendices

Capital Markets

A Capital Market Strategy is being formulated with particular focus on the following five pillars:

- revisiting the risk appetite of the Authority;
- revisions required to the regulatory framework;
- strengthening the sponsors regime;
- building on supervisory capacity; and
- investor education.

Throughout the past year, the Capital Markets team commenced its work on the risk appetite of the Authority upon which the revised regulatory framework will be eventually drafted.

As part of the Capital Market Strategy, the MFSA is also formulating a Securities Token Offering (STO) Policy (see page 75).

Furthermore, during 2019, the Capital Markets team undertook the following activities.

Market integrity and investor protection

The MFSA works towards encouraging the financial markets to be fairer and more transparent in order to create an environment that strengthens the trust of investors whilst enabling entities operating within such markets to grow and prosper.

Throughout 2019, the MFSA focused on creating awareness amongst entities, namely trading venues, issuers whose financial instruments are admitted to trading on trading venues and investment firms through onsite compliance meetings, as well as through the publication of circulars aimed at ensuring adequate implementation of the Market Abuse Regulation.

The MFSA will continue to focus on preventing and detecting misconduct in the financial markets, namely insider dealing, unlawful disclosure of inside information and market manipulation, to achieve the Authority's strategic objectives of safeguarding the interests of investors and enhancing the stability and integrity of the financial markets.

Implementation of the European Single Electronic Format (ESEF)

The ESEF is the electronic reporting format which issuers on EU regulated markets must use to prepare their Annual Financial Reports. The use of ESEF will apply for financial years beginning on or after 1 January 2020. The implementation of ESEF is designed to simplify submissions made by issuers whilst also facilitating accessibility, analysis and comparability by investors and the regulator.

In 2019, as part of the ESEF project, the Authority engaged with issuers to discuss the impact of ESEF. In the course of the same year, the Authority initiated the development and implementation of tools in order to ensure preparedness, for issuers to be in a position of submitting ESEF-compliant Annual Financial Reports.

In 2019, as part of the ESEF project, the Authority engaged with issuers to discuss the impact of ESEF.

Regulatory developments and communication to the market

The MFSA is currently in the process of implementing the Securitisation Regulation which will be applied in a harmonised manner to all securitisations, securitising entities, and EU-regulated institutional investors.

Amendments to legislation, listing rules and Rulebooks are also underway to implement the Prospectus Regulation (PR3) and to transpose the Shareholders' Right Directive (SRD II). The PR3, which repealed and replaced EU Directive 2003/71/EC, has been applied on a rolling basis, with full application from July 2019. The MFSA is also reviewing possible revisions to Listing Rules and is working towards the implementation of new reporting requirements under the Securities Financing Transactions Regulation (SFTR).

A number of Circulars relating to capital markets have been issued to the industry during 2019. Additionally, the Authority has introduced a new section on its website to <u>provide further guidance to prospective applicants.</u>

Enhanced transparency and resilience of infrastructures

Throughout the past year, the Authority continued to build supervisory capacity to enhance transparency in the market. In this respect, **the Authority has increased its engagement with issuers and their auditors when it comes to enforcement of financial information and the timely publication of information including, but not limited to, financial information, through the publication of Company Announcements.**

Moreover, the team worked towards ensuring that the transparency of transactions in financial instruments, such as equity, debt instruments, derivative transactions and securities financing transactions is of high quality. Work has also commenced in the area of Securities Financing Transactions Regulation (SFTR). Additionally, the new regulations pertaining to Central Counterparties (CCPs) as part of EMIR have been incorporated into Maltese law.

When it comes to the timely publication of information, the Authority has increased its engagement with issuers and their auditors.

2 Chief Executive's Statement How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

7 Financial Statements

Statistical
Compendium

9 Appendices

Trustees and CSPs

The supervision of trustees relates to persons acting as Trustees, persons acting as mandatories, Administrators of Private Foundations, Trustees of Family Trusts and persons acting as Qualified Persons. The supervision of CSPs covers companies and individuals who carry out corporate services in relation to incorporation of companies, the provision of registered office services, directorship or company secretary appointments by the registered person or by arranging for a third party to provide this service. **As at the end of 2019, there were 174 authorised Trustees and 182 CSPs.**

The MFSA's priority with respect to trustees and corporate services providers is to focus on the proper governance of supervised firms.

The total number of onsite visits carried out within the Trustees and CSPs (TCSP) sector amounted to 38 during 2019, representing 16% of the total supervisory visits. In view of the focus on transparency of legal arrangements in the context of combatting money laundering and terrorist financing, the TCSP team undertook a thematic review exercise focused on compliance with the relevant reporting requirements of trusts' beneficial ownership information. The findings formed the basis for a thematic review exercise which was communicated to the industry in October 2019 to emphasise the Authority's expectations in this area.

The MFSA's priority with respect to trustees and corporate services providers is to focus on the proper governance of supervised firms. To this end, the Authority is reviewing and assessing several aspects including the effectiveness of the Board of Directors, the compliance function, business models and the risk assessment of supervised firms. This will be supported by regular thematic reviews to address specific risk areas that are identified, guidance notes and circulars to assist licence holders in mitigating risks, training to provide regulated firms with updates on regulatory requirements and ongoing regulatory development.

Raising the Bar for Company Service Providers

During 2019, the MFSA reassessed the framework governing CSPs with the intention of raising the bar for persons performing such activity. This was mainly triggered by the overarching objective to raise standards as well as lessons learnt from supervisory experience. This also addressed certain recommendations made by MONEYVAL, particularly in extending the CSP framework to bring previously exempt service providers within scope of the Company Service Providers Act.

Following the internal assessment, the Authority published a <u>Consultation Document</u> in October 2019 seeking feedback on a number of proposals. These may be categorised into two: a proposal for a holistic regulatory framework for CSPs in Malta; and proposals in relation to the Maltese institutional architecture for the regulation of CSPs. The Consultation Period closed in December 2019. The Authority received over 50 responses from a wide range of stakeholders. These were all carefully considered, and a feedback statement setting out the Authority's final position was published in April 2020.

Increased Regulatory Oversight

The MFSA has introduced new regulatory obligations for trusts, bringing greater scrutiny and accountability. The amended legislation significantly increases the number of trusts that must register through the Authority's online platform, TUBOR, from 300 to over 3,000.

TUBOR ensures that the reporting and holding of information is secure, streamlined and efficient. The change mandates that all trusts, irrespective of whether they generate tax consequences or not, must submit ultimate beneficial ownership information to the MFSA.



The amended legislation significantly increases the number of trusts that must register with the Trust Beneficial Ownership Register, from 300 to over 3,000.

4 What We Regulate 5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities

/ Financial Statements Statistical
Compendium

9 Appendices

The MFSA reassessed the framework for CSPs with the intention of raising the bar for service providers.

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

7 Financial Statements

Statistical
Compendium

9 Appendices

The Extension of the Requirement to Submit an Annual Compliance Return

During 2019, the Conduct Supervision function within the Authority extended the requirement to submit an Annual Compliance Return comprising of important data for offsite supervision purposes to persons licensed as Trustees of family trusts and administrators of private foundations.

The TCSP team also embarked upon, or continued to work on enhanced supervision of certain trustees and CSPs. As a result, some entities have been subject to a remediation plan to strengthen their governance structures, and enforcement action was taken in the case of one entity.

Higher Engagement with the Industry

During 2019, the MFSA has worked towards increasing its engagement with the industry through various channels, including regular thematic reviews on areas deemed to be critical, and regular training to regulated firms to provide updates on any new regulatory requirements and to address any risks identified through supervision.

During 2019, the MFSA has worked towards increasing its engagement with the industry through various channels.





BOARD OF GOVERNORS' REPORT	109
INDEPENDENT AUDITOR'S REPORT	112
STATEMENT OF FINANCIAL POSITION	116
STATEMENT OF COMPREHENSIVE INCOME	118
STATEMENT OF CHANGES IN EQUITY	119
STATEMENT OF CASH FLOWS	120
NOTES TO THE FINANCIAL STATEMENTS	121

Contents

1 Chairman's Chief
Foreword Executive's Statement

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

Board of Governors' report

The Governors present their report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The Malta Financial Services Authority (the 'MFSA' or 'the Authority') is the single regulator for financial services in Malta, which incorporates credit institutions, financial and electronic money institutions, securities and investment services companies, regulated markets, insurance companies, pension schemes, trustees, VFA agents and VFA service providers. The MFSA also acts as the Resolution Authority and has been appointed as the Listing Authority. The Authority is a fully autonomous public institution and reports to Parliament on an annual basis. Prior to 30 April 2018, the MFSA also managed the Registry of Companies ('the Registry').

Review of the business

The Governors hereby report a surplus of €749,361 for the financial year 2019 (2018: deficit of €7,756,903). Income generated from applications fees, supervision fees and listing fees increased by 0.08% as compared with 2018. As a result of the de-merger of the Registry of Companies with effect from 1 May 2018, no income from Registry

operations was recognised in the books during 2019 (2018: €5,047,971), other than residual fees received for services and facilities provided by the MFSA to the Registry during the transitional period leading up to the relocation of the Registry's offices. The increasing level of regulatory activity and participation in European meetings across all areas of supervision, saw an increasing cost base for the operations of the Authority.

Throughout 2019, the MFSA continued to perform a core role in disseminating information to consumers, media and the industry, supporting industry education and training programmes, conducting seminars and meetings on legal, technical and regulatory developments, contributing to the framing of national and EU-wide technical policy development and exchanging views and experiences with other national regulatory and supervisory bodies.

Results and surplus funds

The statement of comprehensive income is set out on page 118. During 2019 and 2018, no surplus funds for the financial year were payable to Government, in terms of the Malta Financial Services Authority Act, 1988.

Appendices

1 Chairman's Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	フ Financial Statements	8 Statistical Compendium
-----------------------------	-----------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	------------------------------	--------------------------------

Board of Governors' report (continued)

Governors

The Governors of the Authority who held office during the year were:

Prof John Mamo LLD. BLitt. (Oxol). BA - Chairman Mr Mario Borg BCom, MA (ISSS), MSc Public Economics (York) Dr Joseph Brincat B.A. (Lond), B.Sc (Econ) Lond, LL.D Mr Frans Camilleri DSS (Oxon), Graduate Diploma (UEA), MA (UEA) Dr John Consiglio Ph.D, M.Phil (Eur Studs)., MBA (Wales)., DipFS., Dip Law & Adm., Dip Bus. Law & Acctv., FCIB.

Dr Lauren Ellul B.Accty (Hons), Executive MBA (Edinburgh & ENPC), Ph.D (Birm), FIA, CPA

Mr Andre Psaila BCom (Econ.) (Hons), MSc Banking and Finance Dr Mario Vella B.A., MSc (LSE), Dr. Sc. Oec (Berlin Humboldt) Mr Herbert Zammit LaFerla AIFS

Mr Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA Adv. Dip MA - Chief Executive Officer

Statement of Governors' responsibilities

In preparing the financial statements the Governors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU and the Malta Financial Services Authority Act, 1988;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation as a going concern.

The Governors are also responsible for designing, implementing and maintaining internal control as the Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Malta Financial Services Authority Act, 1988. They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Authority for the year ended 31 December 2019 are included in the Annual Report 2019, which is

Board of Governors' report (continued)

being made available on the Authority's website. The Governors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Authority's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed.

On behalf of the board

Prof. John Mamo

LLD. BLitt. (Oxol). BA

Chairman

Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA Adv. Dip MA Chief Executive Officer Malta Financial Services Authority, Triq I-Imdina, Zone 1, Central Business District, Birkirkara, CBD 1010, Malta

16 April 2020

1 2 Chairman's Chief Foreword Executive's Statement

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities /
Financial
Statements

8 Statistical Compendium

9 Appendices

Independent auditor's report

To the Stakeholders of the Malta Financial Services Authority

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Malta Financial Services Authority's financial statements give a true and fair view of the authority's financial position as at 31 December 2019, and of the authority's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Malta Financial Services Authority Act, 1988.

What we have audited

The Malta Financial Services Authority's financial statements, set out on pages 108 to 147, comprise:



- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- · the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code

Chief Chairman's Foreword

Executive's Statement

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

Financial Statements 8 Statistical Compendium

Appendices



To the Stakeholders of the Malta Financial Services Authority

of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The board members are responsible for the other information. The other information comprises the board of governors' report, which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board members for the financial statements

The board members are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Malta Financial Services Authority Act, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board members are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board members either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

1 2 Chief Foreword Executive's Statement

How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific
Priorities

/ Financial Statements 8 Statistical Compendium

9 Appendices

Independent auditor's report - continued

To the Stakeholders of the Malta Financial Services Authority

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those



risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board members.
- Conclude on the appropriateness of the board members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are

1 2 Chairman's Chief Foreword Executive's Statement

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/ Financial Statements 8 Statistical Compendium

9 Appendices

Independent auditor's report - continued

To the Stakeholders of the Malta Financial Services Authority

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Authority's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Authority's trade, customers, suppliers and the disruption to its business and the overall economy.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers

78, Mill Street Qormi Malta

Stephen Mamo

Partner

16 April 2020

Statement of financial position

		As at 31 December		
		2019	2018	
	Notes	€	€	
ASSETS				
Non-current assets				
Property, plant and equipment	5	17,034,074	16,354,199	
Right-of-use assets	13	410,670	-	
Intangible assets	6	91,544	-	
Financial assets at amortised cost	7	1,667,454	2,169,418	
Total non-current assets		19,203,742	18,523,617	
Current assets				
Financial assets at amortised cost	7	500,039	-	
Trade and other receivables	9	1,616,398	1,134,635	
Amounts due from Government	10	4,944,000	-	
Cash and cash equivalents	11	7,460,724	5,050,862	
Total current assets		14,521,161	6,185,497	
Total assets		33,724,903	24,709,114	

Statement of financial position (continued)

EQUITY AND LIABILITIES			
Capital and reserves			
Capital fund	14	1,164,687	1,164,687
Revaluation reserve	15	5,220,690	5,220,690
Employee pension fund reserve	16	1,075,002	1,000,002
Reserve fund		8,025,948	7,351,587
Total equity		15,486,327	14,736,966
Non-current liabilities			
Lease liabilities	13	205,864	<u> </u>
Current liabilities			
Trade and other payables	12	17,819,133	9,972,148
Lease liabilities	13	213,579	
Total current liabilities		18,032,712	9,972,148
Total liabilities		18,238,576	9,972,148
Total equity and liabilities		33,724,903	24,709,114

The notes on pages 121 to 147 are an integral part of these financial statements.

The financial statements on pages 108 to 147 were authorised for issue by the Board of Governors on 16 April 2020 and were signed on its behalf by:

Prof. John Mamo LLD. BLitt. (Oxol). BA

John launs

Chairman

Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA

Adv. Dip MA

Chief Executive Officer

Statement of comprehensive income

		Year ended 31 December		
		2019 2018		
	Notes	€	€	
Income	20	11,169,046	16,207,671	
Government subvention	21	24,764,770	-	
Operating expenses	17	(35,260,234)	(24,107,483)	
Operating surplus/(deficit) for the year		673,582	(7,899,812)	
Loss on reduction of investment in subsidiary	8	(17,230)	-	
Finance income	19	81,680	124,457	
Other income	22	11,329	18,452	
Surplus/(deficit) for the year – total comprehensive income		749,361	(7,756,903)	

The notes on pages 121 to 147 are an integral part of these financial statements.

Statement of changes in equity

		Capital fund	Revaluation reserve	Employee pension fund reserve	Reserve fund	Total
	Notes	€	€	€	€	€
Balance at 1 January 2018	_	1,164,687	5,220,690	925,002	15,183,490	22,493,869
Comprehensive income						
Appropriation from income statement		-	-	-	(7,756,903)	(7,756,903)
Transfer to pension fund reserve	16	-	-	75,000	(75,000)	-
Total comprehensive income for the year		-	-	75,000	(7,831,903)	(7,756,903)
As at 31 December 2018	_	1,164,687	5,220,690	1,000,002	7,351,587	14,736,966
Balance at 1 January 2019	_	1,164,687	5,220,690	1,000,002	7,351,587	14,736,966
Comprehensive income						
Appropriation from income statement					749,361	749,361
Transfer to pension fund reserve	16			75,000	(75,000)	-
Total comprehensive income for the year	_	-	-	75,000	674,361	749,361
As at 31 December 2019	_	1,164,687	5,220,690	1,075,002	8,025,948	15,486,327

The notes on pages 121 to 147 are an integral part of these financial statements.

Statement of cash flows

		Year ended 31 December		
		2019	2018	
	Notes	€	€	
Cash flows from operating activities				
Cash generated from/(used in) operations	24	4,694,822	(1,035,007)	
Interest received	19	107,825	124,457	
Other income	22	11,329	18,452	
Net cash generated from/(used in) operating activities		4,813,976	(892,098)	
Cash flows from investing activities				
Purchase of property, plant and equipment	5	(1,791,490)	(1,207,691)	
Purchase of intangible assets	6	(122,059)	-	
Net movement in loans and receivables		-	6,000,000	
Net cash (used in)/generated from investing activities		(1,913,549)	4,792,309	
Cash flows from financing activities				
Capital repayments of lease liabilities		(490,565)	-	
Net cash used in financing activities		(490,565)	-	
Net movement in cash and cash equivalents		2,409,862	3,900,211	
Cash and cash equivalents at beginning of year		5,050,862	1,150,651	
Cash and cash equivalents at end of year	9	7,460,724	5,050,862	

The notes on pages 121 to 147 are an integral part of these financial statements.

MFSA ANNUAL REPORT 2019

1 Chairman's Chief
Foreword Executive's Statement

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/ Financial Statements 8 Statistical Compendium

9 Appendices

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Malta Financial Service Authority Act, 1988. They have been prepared under the historical cost convention as modified by the fair valuation of the land and buildings class of property. The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Governors to exercise judgement in the process of applying the Authority's accounting policies (see Note 3 – Critical accounting estimates and judgements).

During 2019, the Authority reported a surplus of €749,361 and a net current liability position of €3,511,551. The Governors have taken cognisance of the overall performance and cash flow position of the

Authority and to that effect, a system of pre-approval of the annual subvention as approved by the House of Representatives has been agreed and established. This will be based on annual and five-year forecasts of revenues and expenditure. On this understanding, the Board of Governors have determined that there is a reasonable expectation that the Authority will have adequate resources to continue its operations for the foreseeable future. For this reason, these accounts have been prepared on a going concern basis.

Standards, interpretations and amendments to published standards effective in 2019

In 2019, the Authority adopted new standards, amendments and interpretations to existing standards that are mandatory for the Authority's accounting period beginning on 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Authority's accounting policies impacting the financial performance and position, except for IFRS 16 'Leases' explained further below.

1 2 Chairman's Chief Foreword Executive's Statement

ef How Stru

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

1. Summary of significant accounting policies (continued)

1.1 Basis of preparation (continued)

New and amended standards adopted

The Authority had to change its accounting policies as a result of adopting IFRS 16 'Leases'. The Authority elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. The impact of the adoption of this standard and the new accounting policies are disclosed in Note 2 below. The other standards did not have any impact on the Authority's accounting policies and did not require any adjustments to the Authority's financial performance and position.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Authority. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro, which is the Authority's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains or losses are presented in the income statement.

1 2 Chairman's Chief Foreword Executive's Statement

3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

1. Summary of significant accounting policies (continued)

1.3 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings, comprising mainly the Authority's offices, are shown at fair value based on periodic valuation, less subsequent depreciation of buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Items of property, plant and equipment comprise land and buildings, furniture, fixtures and fittings and equipment and are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives, as follows:

	%
Furniture, fixtures and fittings	20
Equipment	20

1 2 Chief Executive's Statement

How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

1. Summary of significant accounting policies (continued)

1.3 Property, plant and equipment (continued)

Buildings are depreciated over an estimated useful life of 75 years whilst improvements carried out on leased property are depreciated over the lease period, which is three years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in the income statement. When re-valued assets are sold, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

1.4 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of four years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

1.5 Financial assets

1.5.1 Classification

From 1 January 2018, the Authority classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Authority's financial assets are classified at amortised cost.

Chief Chairman's Foreword Executive's Statement

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

Financial Statements 8 Statistical Compendium

Appendices

1. Summary of significant accounting policies (continued)

1.5 Financial assets (continued)

1.5.1 Classification (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Authority has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Authority reclassifies debt instruments when and only when its business model for managing those assets changes.

1.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Authority commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all the risks and rewards of ownership.

1.5.3 Measurement

Subsequent measurement of debt instruments depends on the Authority's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Authority classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss;
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and

1 2 Chairman's Chief Foreword Executive's Statement

How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

1. Summary of significant accounting policies (continued)

1.5 Financial assets (continued)

1.5.3 Measurement (continued)

recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss;

• FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be

recognised from initial recognition of the receivables, see note 1.6 for further details.

1.6 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less loss allowance.

IFRS 9 Financial Instruments – impairment of financial assets

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

Chief Chairman's Foreword

Executive's Statement

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

Financial Statements 8 Statistical Compendium

Appendices

1. Summary of significant accounting policies (continued)

1.6 Trade and other receivables (continued)

Impairment

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Authority applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

1.7 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call together with short-term, highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

1.8 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.9 Provisions

Provisions for legal claims are recognised when the Authority has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1 Chairman's Foreword Executive's Statement Structured Foreword Structured Foreword Foreword Structured Foreword Structured Foreword Structured Foreword For

1. Summary of significant accounting policies (continued)

1.10 Revenue recognition

The Authority recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria for each of the Authority's activities have been met, as described below:

- (i) Income from application fees is recognised upon receipt of the application;
- (ii) Income from annual supervisory fees is recognised by reference to the stage of completion of the transaction, which equates to a systematic recognition of revenue as it accrues over time;
- (iii) Interest income from investments is reported on an accrual basis using the effective interest method.

1.11 Leases

As explained in Note 1.1 above, the Authority has changed its accounting policy for leases where the company is the lessee. The new policy is described below and the impact of the change is described in Note 2.

Accounting policy as from 1 January 2019

Financial

Statements

The Authority leases various vehicles and office spaces. Rental contracts are typically made for fixed periods ranging from 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

8

Statistical

Compendium

Appendices

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Authority.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities comprise the net present value of the fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing

Chief Chairman's Foreword

Executive's Statement

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

Financial Statements 8 Statistical Compendium

Appendices

1. Summary of significant accounting policies (continued)

1.11 Leases (continued)

rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Authority, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Lease payments due within twelve months are classified as current, if not they are presented as non-current liabilities.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Right-of-use assets are generally depreciated over the lease term on a straight-line basis.

Payments associated with short-term leases of vehicles and land are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Accounting policy as at 31 December 2018

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Authority as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

1.12 Government subvention and EU grants

Grants from the Government, including national Government and EU, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Authority will comply with all attached conditions.

Appendices

3 5 8 Chief How We Are What We Our Cross-Sector Our Sector-Specific **Financial** Statistical Chairman's Foreword Executive's Structured Regulate Priorities Priorities **Statements** Compendium Statement

1. Summary of significant accounting policies (continued)

1.12 Government subvention and EU grants (continued)

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2. Change in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Authority's financial statements.

As indicated in Note 1.1 above, the Authority has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 1.11.

On adoption of IFRS 16, the Authority recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Authority has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review
 there were no onerous contracts as at 1 January 2019; and
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

Appendices

2. Change in accounting policies (continued)

The Authority has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the company relied on its assessment made applying IAS 17 and Interpretation 4 *Determining* whether an Arrangement contains a Lease.

(ii) Measurement of liabilities

	2019 €
Operating lease commitments as at 31 December 2018	1,061,970
Discounted using the lessee's incremental borrowing rate at the date of initial	
application	(178,107)
Lease liability as at 1 January 2019	883,863
Of which are: Current lease liabilities Non-current lease liabilities	568,558 315,305 883,863
	303,003

(iii) Measurement of right-of-use assets

The associated right-of-use assets for vehicle leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- (a) right-of-use assets increase by €883,863
- (b) lease liabilities increase by €883,863

There is no net impact on retained earnings on 1 January 2019.

3 5 8 6 Chief How We Are What We Our Cross-Sector Our Sector-Specific **Financial** Statistical **Appendices** Chairman's Foreword Executive's Structured Regulate Priorities Priorities **Statements** Compendium Statement

3. Financial risk management

3.1 Financial risk factors

The Authority's activities potentially expose it to a variety of financial risks namely market risk, credit risk and liquidity risk. The Authority's risk management is coordinated by the Board of Governors and focuses on actively securing the Authority's short to medium term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Authority does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks that the Authority is exposed to are described below.

(a) Market risk

In view that the investments in Malta Government bonds (see Note 7) are accounted for at amortised cost, the Governors do not consider that the Authority is exposed to significant market risk.

(b) Credit risk

The Authority's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The Authority's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	Notes	2019 €	2018 €
Financial assets at amortised cost	7	2,167,493	2,169,418
Trade and other receivables	9	686,924	713,080
Amounts due from government	10	4,944,000	-
Cash and cash equivalents	11	7,460,724	5,050,862
		15,259,141	7,933,360

The Authority assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. The Authority monitors the performance of its receivables on a regular basis to identify incurred

3 5 8 6 Chief How We Are What We Our Cross-Sector Our Sector-Specific **Financial** Statistical **Appendices** Chairman's Foreword Executive's Structured Regulate Priorities Priorities **Statements** Compendium Statement

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

collection losses, which are inherent in the Authority's receivables, taking into account historical experience.

The Authority's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. None of the Authority's financial assets are secured by collateral.

As at 31 December 2019, trade receivables of €990,537 (2018: €1,108,000) were impaired, and the amount of the provisions in this respect are equivalent to these amounts. Reversal of provisions for impairment arises in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The Authority does not hold any collateral as security in respect of the impaired assets.

(b) Credit risk - continued

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2019	2018
	€	€
Balance at beginning of year (Decrease)/increase in loss allowance	1,108,000	612,474
on trade receivables	(117,463)	495,526
Balance at end of year	990,537	1,108,000

Credit risk in relation to cash and cash equivalents and held-to-maturity investments is considered to be limited, since the counterparts and issuer are reputable banks, and the Government of Malta respectively.

(c) Liquidity risk

The Authority is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade

	2
airman's	Chief
eword	Executive
	Statemer

Cha

Fore

2
Chief
Executive's
Statement

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

Financial Statements 8 Statistical Compendium

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

and other payables (Note 12). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Authority's obligations.

The Authority monitors liquidity risk by reviewing expected cash flows and ensures that no additional financing facilities are expected to be required over the coming year. The Authority's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments.

3.2 Capital risk management

The Authority's equity, as disclosed in the statement of financial position, constitutes its capital. The Authority's objectives when managing capital are to safeguard the respective entity's ability to continue as a going concern in order to provide returns and benefits for stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Authority's equity is maintained in line with the provisions set within the Malta Financial Services Authority Act, 1988.

In view of the nature of the Authority's activities and its financial position, the capital level as at the end of the reporting period is deemed adequate by the Governors.

3.3 Fair values of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as Level 1 in view of the Quoted prices (unadjusted) in active markets for identical assets or liabilities.

The following table presents the Authority's assets and liabilities that are measured at fair value at the respective dates:

	Level 1 €
31 December 2019 Financial assets at amortised cost	2,167,493
31 December 2018 Financial assets at amortised cost	2,169,418

1	2
Chairman's	Chief
Foreword	Executive's
	Statement

3		
How	We	Ar
Struc	ture	ed

8
Statistical
Compendium

Appendices

At 31 December 2019 and 2018 the carrying amounts of cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Governors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

5. Property, plant and equipment

	Land and Buildings	Furniture, fixtures and fittings	Equipment	Total
	€	€	€	€
Year ended 31 December 2018				
Opening net book amount	14,674,960	299,940	1,050,994	16,025,894
Additions	331,959	198,664	677,068	1,207,691
Disposals	-	-	(5,149)	(5,149)
Depreciation charge	(294,655)	(82,240)	(501,998)	(878,893)
Depreciation released on disposal	-	-	4,656	4,656
Closing net book amount	14,712,264	416,364	1,225,571	16,354,199
At 31 December 2018				
Cost or valuation	15,559,226	2,432,178	5,960,344	23,951,748
Accumulated depreciation	(846,962)	(2,015,814)	(4,734,773)	(7,597,549)
Net book amount	14,712,264	416,364	1,225,571	16,354,199

5. Property, plant and equipment (continued)

	Land and Buildings	Furniture, fixtures and fittings	Equipment	Total
	€	€	€	€
Year ended 31 December 2019				
Opening net book amount	14,712,264	416,364	1,225,571	16,354,199
Additions	368,405	278,080	1,145,005	1,791,490
Disposals	-	-	(32,853)	(32,853)
Depreciation charge	(310,360)	(131,756)	(653,936)	(1,096,052)
Depreciation released on disposal	-	-	17,290	17,290
Closing net book amount	14,770,309	562,688	1,701,077	17,034,074
At 31 December 2019				
Cost or valuation	15,927,631	2,710,258	7,072,496	25,710,385
Accumulated depreciation	(1,157,322)	(2,147,570)	(5,371,419)	(8,676,311)
Net book amount	14,770,309	562,688	1,701,077	17,034,074

1 2 Chairman's Chief Foreword Executive's Statement

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

5. Property, plant and equipment (continued)

Fair value of land and buildings

The Authority's office building was revalued on 31 December 2017 by independent professionally qualified valuers. The valuation was conducted by DeMicoli & Associates (a firm of architects). The book value of the property was adjusted to the revaluation and the resultant surplus was credited to the revaluation reserve (refer to Note 15). The Board of Governors has reviewed the carrying amount of the property as at 31 December 2019 and no adjustments to the carrying amount were deemed necessary as at that date taking cognisance of developments that occurred during the current financial year.

The Authority is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or

indirectly (that is, derived from prices) (Level 2);

• Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The recurring property fair value measurement at 31 December 2019 uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

The Authority's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2019.

A reconciliation from the opening balance to the closing balance of non-financial assets for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above.

Valuation processes

The valuation of the property is performed regularly on the basis of valuation reports prepared by independent and qualified valuers. At the end of every reporting period, management assesses whether 2 Chief Executive's Statement 3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

5. Property, plant and equipment (continued)

any significant changes in the major inputs have been experienced since the last external valuation. Management reports to the Board of Governors on the outcome of this assessment.

When an external valuation report is prepared, the information provided by the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the COO. This includes a review of fair value movements over the period. When the COO considers that the valuation report is appropriate, the valuation report is recommended to the Board of Governors. The Board of Governors considers the valuation report as part of its overall responsibilities.

Valuation techniques

The Level 3 fair valuation of the Authority's land and buildings was determined by using a comparative approach whereby the current selling prices and rental values of similar developments were compared in order to obtain an equitable rental value of the property. The significant unobservable inputs in the valuation include:

Equivalent rental values

based on the actual location, type and quality of property supported by current market rents for similar properties. Capitalisation rates

based on actual location, size and quality of the property and taking into account market data at the valuation date.

Information about fair value measurements using significant unobservable inputs (Level 3)

			Significant unobservable inputs	
Description	Fair value at 31 December 2019 and 2018	Valuation technique	Equivalent rental value	Capitalisation Rate %
	€		€	90
Office building	14.375m	Comparative and Investment method	0.89m	6.25

The higher the rental yield and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the lower the fair value.

5. Property, plant and equipment (continued)

Historical cost of land and buildings

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2019	2018
	€	€
Cost	10,706,941	10,338,536
Accumulated depreciation	(907,492)	(620,312)
Net book amount	9,799,449	9,718,224

6. Intangible assets

Computer Software

€

Year ended 31 December 2019	
Additions	122,059
Depreciation charge	(30,515)
Closing net book amount	91,544
At 31 December 2019	
Cost	122,059
Accumulated depreciation	(30,515)
Net book amount	91,544

7. Financial assets at amortised cost

Financial assets include the following investments:

	2019	2018
	€	€
Non-current		
Financial assets at amortised cost	1,667,454	2,169,418
Current		
Financial assets at amortised cost	500,039	
As at 31 December	2,167,493	2,169,418

7. Financial assets at amortised cost (continued)

The movements during the year in financial assets at amortised cost, which comprise Malta Government Bonds, were as follows:

	2019	2018
	€	€
Opening net book amount	2,169,418	2,171,342
Amortisation	(1,925)	(1,924)
Closing net book amount	2,167,493	2,169,418

8. Investment in subsidiary

	2019	2018
	€	€
As at 31 December		
Cost	-	2,329
Fair value loss	-	(2,329)
Carrying amount	-	

The Authority's investment in Malta International Training Centre Limited, in which it owned 99.9% of the company's shares, was sold on 1 April 2019 on a going concern basis.

9. Trade and other receivables

	2019	2018
	€	€
Current		
Trade receivables – gross	1,677,461	1,698,830
Less: Loss allowance on trade receivables	(990,537)	(1,108,000)
Trade receivables – net	686,924	590,830
Amounts due by subsidiary	-	69,272
Prepayments	870,733	421,555
Accrued income	58,741	52,978
	1,616,398	1,134,635

10. Amounts due from Government

	2019	2018
	€	€
Funds committed by Government	4,944,000	_

11. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019	2018
	€	€
Cash and cash equivalents Technical account held at the Central	5,289,134	2,905,828
Bank of Malta (Note 12)	2,171,590	2,145,034
	7,460,724	5,050,862

12. Trade and other payables

	2019	2018
	€	€
Current		
Trade payables	1,406,303	2,429,583
Amount due to Malta Business		
Registry	1,406,479	2,656,178
Other creditors	2,171,590	2,212,152
Indirect taxation	371,177	515,748
Accruals	8,163,628	1,117,181
Deferred government subvention	3,119,223	-
Deferred income	1,180,733	1,041,306
	17,819,133	9,972,148

The Authority provisionally holds on deposit with the Central Bank of Malta an amount of \in 2,171,590 (2018: \in 2,145,034), included within other creditors, as part of its duty as a regulatory body.

13. Lease liabilities

This note provides information for leases where the company is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	€
Right-of-use assets	
Vehicles	153,943
Offices	256,727
	410.670

2019

3

How We Are

Chairman's

Chief

Executive's

14. Capital fund

Our Sector-Specific

6

Priorities

5

Priorities

Our Cross-Sector

What We

The capital fund of €1,164,687 represents the initial contribution by the Government to the Authority in 1994 upon its establishment.

Financial

Statements

8

Statistical

Compendium

Appendices

15. Revaluation reserve

	2019	2018
	€	€
As at 31 December	5,220,690	5,220,690

The revaluation reserve is not distributable and represents the accumulated fair value movements on the Authority's land and buildings.

16. Employee pension fund

	2019	2018
	€	€
Balance as at 1 January	1,000,002	925,002
Transfer for the year	75,000	75,000
As at 31 December	1,075,002	1,000,002

16. Employee pension fund (continued)

The employee pension fund reserve has been created to set aside reserves to prepare for the potential employee pension fund that may be set up for the benefit of the employees at the opportune time.

17. Expenses by nature

	2019	2018
	€	€
Depreciation of property, plant and equipment (Note 5) Depreciation of intangible assets	1,096,052	878,893
(Note 6)	30,515	-
Employee costs (Note 18)	15,486,700	12,532,762
Professional fees	2,462,280	1,304,884
Regulatory support fees	2,306,761	1,114,453
Enforcement and compliance fees	8,879,278	3,567,189
(Decrease)/Increase in provision for		
bad debts	(117,463)	495,526
Communications and events	659,788	646,457
Governors' emoluments	151,233	140,940
Other administrative expenses	4,305,090	3,426,379
Total operating expenses	35,260,234	24,107,483

Auditor's fees

Fees charged by the auditor for the statutory audit amount to €7,000 (2018: €7,000).

18. Employee costs

	2019	2018
	€	€
Wages and salaries	12,738,216	10,721,379
Social security costs	766,484	659,344
Other staff costs	1,982,000	1,152,039
	15,486,700	12,532,762

Average number of persons employed by the Authority during the year:

	2019	2018
Managerial	281	235
Administration	41	51
	322	286

During 2018 and 2019, the Authority offered its employees a Voluntary Severance Scheme for which the current year's expense, included within other staff costs, amounted to \in 681,585 (2018: \in 540,417).

1 Chairman's Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	7 Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	-----------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	------------------------------	--------------------------------	-----------------

19. Finance income

	2019	2018
	€	€
Interest income from demand deposits Interest income from Government	834	17,481
bonds	106,991	106,976
Interest charges for lease liabilities	(26,145)	-
	81,680	124,457

20. Income

	2019	2018
	€	€
Authorisations	770,262	979,763
Securities and markets supervision	2,614,104	2,576,515
Insurance and pensions supervision	2,216,164	2,359,425
Conduct	564,467	620,116
Banking supervision	4,291,149	4,246,631
Listing authority income	559,150	377,250
Registry of Companies	-	5,047,971
Fintech	153,750	-
Total Income	11,169,046	16,207,671

21. Government subvention

The Government subvention represents a contribution by Government towards the Authority to ensure that it has adequate resources to continue its operations and meet its obligations as the single regulator for financial services in Malta.

22. Other income

	2019	2018
	€	€
EU grants designated for specific		
purposes	7,428	18,452
Other	3,901	-
	11,329	18,452

EU funds designated for specific purposes amounting to €7,428 at 31 December 2019 (2018: €18,452) are amortised to profit or loss over the term of the service concession.

23. Tax expense

Section 30 of the Malta Financial Services Authority Act, Cap 330 exempts the Authority from any liability to pay income taxes.

MFSA ANNUAL REPORT 2019

24. Cash generated from/(used in) operations

Reconcilation of operating surplus/(deficit) generated from operations:

	2019	2018	
	€	€	
Operating surplus/(deficit) for the year	673,582	(7,899,812)	
Adjustments for:			
Depreciation of property, plant and equipment (Note 5)	1,096,052	878,893	
Depreciation of intangible assets (Note 6)	30,515	-	
Depreciation of right-of-use assets (Note 13)	473,193	-	
Loss on sale of property, plant and equipment (Note 5)	15,563	493	
Amortisation of investment (Note 7)	1,925	1,924	
(Decrease)/increase in loss allowance on trade receivables (Note 9)	(117,463)	495,526	
Bad debts written off	-	5,200	
Changes in working capital:			
Trade and other receivables	(381,530)	458,764	
Amounts due from government	(4,944,000)	-	
Trade and other payables	7,846,985	5,024,005	
Cash generated from/(used in) operations	4,694,822	(1,035,007)	

Appendices

3 5 8 6 Chief How We Are What We Our Cross-Sector Our Sector-Specific **Financial** Statistical Chairman's **Statements** Foreword Executive's Structured Regulate Priorities Priorities Compendium Statement

25. Commitments

	2019	2018
	€	€
Capital expenditure		
Capital expenditure that has been contracted for but not yet accounted for in the Financial Statements	961,381	-
Capital expenditure that has been authorised by the Board of Governors but has not yet been		
contracted for	5,990,002	2,568,965

26. Contingencies

The Authority has not provided for claims instituted against it by a number of persons on the basis that the proceedings are still at an early stage and the potential financial impact and probable outcome of these claims has as yet not been quantified.

27. Related party transactions

Except for transactions disclosed or referred to previously, the following significant transactions, which were carried out principally with related entities, have a material effect on the operating results and financial position of the Authority:

	2019	2018
	€	€
Funds committed by Government (Note 10) Amounts due to Malta Business	4,944,000	-
Registry (Note 12)	1,406,779	2,656,178

Key management personnel compensation, consisting of Governors' remuneration is disclosed in Note 18.

28. Statutory information

The Malta Financial Services Authority (MFSA) ('the Authority') is the single regulator for financial services in Malta enacted by virtue of the Malta Financial Services Authority Act, 1988 and reports to the Maltese Parliament.

On 20 March 2018, by virtue of Act No. VI of 2018, Articles 2(2) and 6, it had been established that the Registry of Companies shall no longer form part of the Malta Financial Services Authority.



THE BANKING SECTOR

Table 1: Branches and ATMs





Table 2: Capital requirements Ratio and Tier 1 Capital Ratio (2017 – 2019)

		2017	2018	2019
	Core Domestic Banks	16.4	18.1	19.6
Capital requirements	Non-Core Domestic Banks	17.5	19.1	17.7
Ratio (%)	Other Banks	47.2	52.0	48.9
	Aggregate Banking Sector	21.0	22.8	22.7
	Core Domestic Banks	14.3	16	17.3
Tion 1 Constal Datio	Non-Core Domestic Banks	14.5	18.7	17.7
Tier 1 Capital Ratio (%)	Other Banks	44.7	49.6	48.5
(/ ~)	Aggregate Banking Sector	18.7	20.8	20.8

MFSA ANNUAL REPORT 2019

6 Our Sector-Specific Priorities

/ Financial Statements

Statistical Compendium

9 Appendices

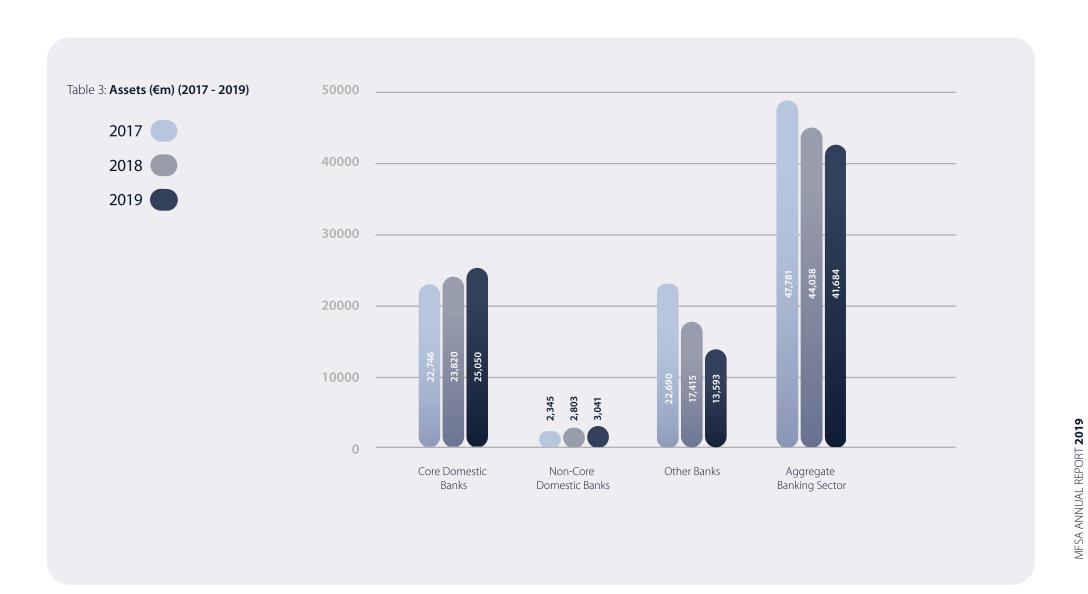


Table 4: Distribution of Assets (€m) (2019)

	Cash, cash balances at central banks and other demand deposits	Loans and receivables	Debt Instruments	Equity Instruments	Other assets
Core Domestic Banks	5,166	12,954	5,954	128	848
Non-Core Domestic Banks	939	1,004	803	151	143
Other Banks	1,859	6,595	3,680	56	1,403
Aggregate Banking Sector	7,965	20,552	10,438	335	2,394

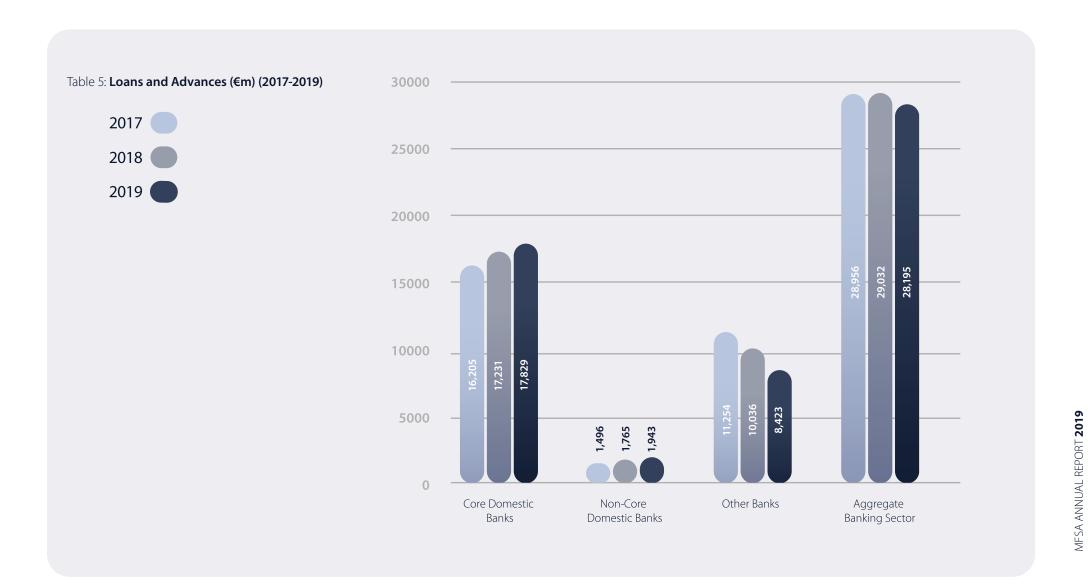
How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

Financial
Statements

Statistical Compendium

9 Appendices



Talala C. Lanna and Advances		(Cm) (2010)
Table 6: Loans and Advances – 1	tob elant sectors	(€M) (2019)

top eight sectors (€m) (2019)	Households and individuals	Credit	Transportation and storage	Manufacturing
Core Domestic Banks	6,434	1,656	164	400
Non-Core Domestic Banks	62	389	16	185
Other Banks	234	1,923	1,964	712
Aggregate Banking Sector	6,730	3,968	2,145	1,297

	Construction	Real estate	Wholesale and retail trade	Electricity, gas and AC supply
Core Domestic Banks	410	849	592	188
Non-Core Domestic Banks	90	45	221	30
Other Banks	597	153	207	285
Aggregate Banking Sector	1,097	1,048	1,020	502

Chief
Executive's
Statement

3 How We Are Structured

4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

Financial Statist Compo

Statistical Compendium

9 Appendices

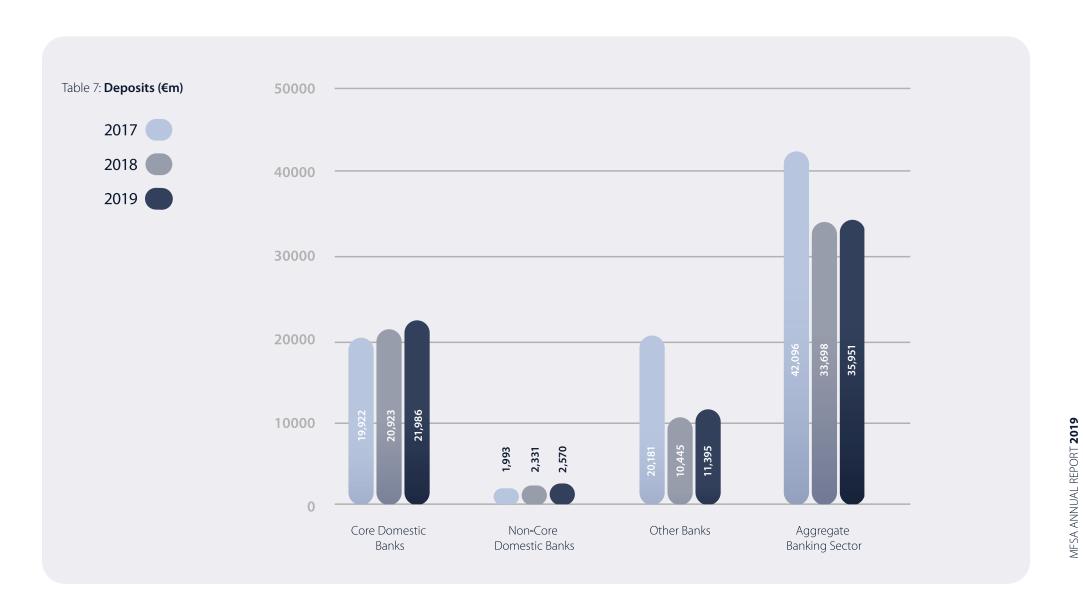


Table 8: Distribution of Deposits (2019)

	Current accounts / overnight deposits	Deposits with agreed maturity	Deposits redeemable at notice	Repurchase agreements
Core Domestic Banks (%)	73.7	21.0	4.2	1.1
Non-Core Domestic Banks (%)	48.5	49.7	0.0	1.8
Other Banks (%)	10.0	79.2	0.1	10.7
Aggregate Banking Sector (%)	52.1	41.2	2.6	4.2

Table 9: **Geographical Distribution of Banking Sector Activities (2019) (%)**

	€ Loans (%)	Deposits (%)
Residents	58.7	56.9
Non-Residents	41.3	43.1

/
Financial
Statements

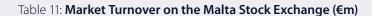
Statistical
Compendium

9 Appendices

SECURITIES AND INVESTMENT SERVICES

Table 10: **New issues on the Malta Stock Exchange**

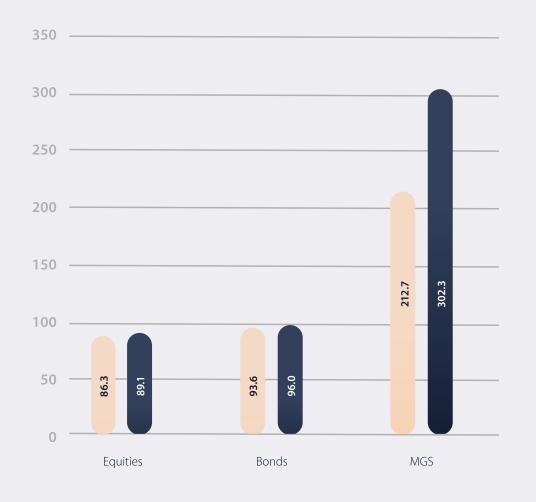
	2018	2019
Corporate Bonds	6	16
Malta Government Stocks (MGS)	3	8
Shares (Equity)	3	3
Total	12	27
Aggregate Nominal Value (€m)	409.02	845.70



2018

2019





157

Financial
Statements

Statistical
Compendium

9 Appendices

Table 12: Net Asset Value of Malta Domiciled Funds (€m)	2017	2018	2019
UCITS	2,639	2,672	3,086
Non-UCITS	7,730	11,502	12,265
Total	10,369	14,174	15,351



Diversified 6,026 39.3%



Equity 4,449 29.0%



Bond 1,966 12.8%



Mixed 1,062 6.9%



9

Appendices

Other 1,040 6.8%



Property 658 4.3%



Hedge 99 0.6%



Money Market 39 0.3%



Commodity
12
0.1%



1
Chairman's
Foreword

2
Chief
Executive's
Statement

Our Sector-Specific Priorities

T 1 1 4 4 5 5		
Table 14: Manac	lement of Malta	a Domiciled Funds

	% of funds (incl. sub-funds) at end 2018	% of funds (incl. sub-funds) at end 2019
Self-managed	41.34	38.28
Managed in Malta	34.06	37.06
Managed from outside Malta	24.60	24.66
Total	100	100

Table 15: Administration of Malta Domiciled Funds

	% of funds (incl. sub-funds) (2018)	% of funds (incl. sub-funds) (2019)
Administered in Malta	87.76	87.30
Administered from outside Malta	12.24	12.70
Total	100	100

MFSA ANNUAL REPORT 2019

1 Chairman's Foreword	2 Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	----------------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

Table 16: Non-Malta Domiciled Funds		
	Funds (incl. sub- funds) at end 2018	Funds (incl. sub- funds) at end 2019
Non-Malta domiciled funds administered in Malta	191	175
Non-Malta domiciled funds managed in Malta	130	133

Table 17: Net Asset Value of Non-Malta Domiciled Funds (€m)

	2018	2019
Non-Malta domiciled funds administered in Malta	3,487	4,009
Non-Malta domiciled funds managed in Malta	20,673	23,533

INSURANCE AND PENSIONS SCHEMES

Table 18: Insurance Undertakings authorised in Malta

	2017	2018	2019
Non-Life	46	51	55
Life	8	8	8
Composite	2	2	2
Reinsurance	7	5	5
Total net licences	63	66	70
of which:			
Affiliated	8	7	7
Protected Cell Companies (and Cells)	14 (34 Cells)	16 (36 Cells)	15 (60 Cells)
Insurance of domestic origin	8	8	8

1
Chairman's
Foreword

3
How We Are
Structured

6 Our Sector-Specific Priorities

cal Appendices

	SCR Ratio			MCR Ratio		
	Life	Non-Life	Reinsurance	Life	Non-Life	Reinsurance
2017	261.0	223.3	469.7	649.4	607.1	1067.4
2018	237.5	210.3	414.8	595.8	555.1	940.5
2019	247.2	192.4	405.9	645.5	514.5	925.9

Table 20: Gross Written Premiums of the General Business Sector (€m)

	2017	2018	2019
Risks in Malta	150	170	202
Risks outside Malta	2,606	2,886	3,606
Total	2,756	3,056	3,808

Table 21: Gross Written Premiums of the Long-Term Business Sector (€m)

	2017	2018	2019
Risks in Malta	382	399	362
Risks outside Malta	1,025	1,288	1,049
Total	1,407	1,687	1,411

	2017	2018	2019
Risks in Malta	67	75	93
Risks outside Malta	1,510	1,426	1,630
Total	1,577	1,501	1,723

Table 23: Gross Claims Paid of the Long-Term Business Sector (€m)

	2017	2018	2019
Risks in Malta	210	231	270
Risks outside Malta	475	469	489
Total	685	700	759

1 Chairman's Foreword	2 Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	----------------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

Table 24: Loss ratios for general business undertakings writing direct and reinsurance business (other than that written by pure reinsurance) and pure reinsurance

Direct			Reinsurance			
Licence Type	Loss Ratio B	Expense Ratio	Combined Ratio	Loss Ratio B	Expense Ratio	Combined Ratio
2017	39%	24%	63%	71%	21%	93%
2018	40%	31%	71%	81%	7%	88%
2019	40%	30%	69%	87%	5%	93%

Table 25: Insurance Penetration^{3,4} (%)

Year	General Business - HO Malta	General Business - HO outside Malta	Long-term Business - HO Malta	Long-term Business - HO outside Malta
2017	1.3	1.0	3.4	1.5
2018	1.4	2.8	3.2	1.5

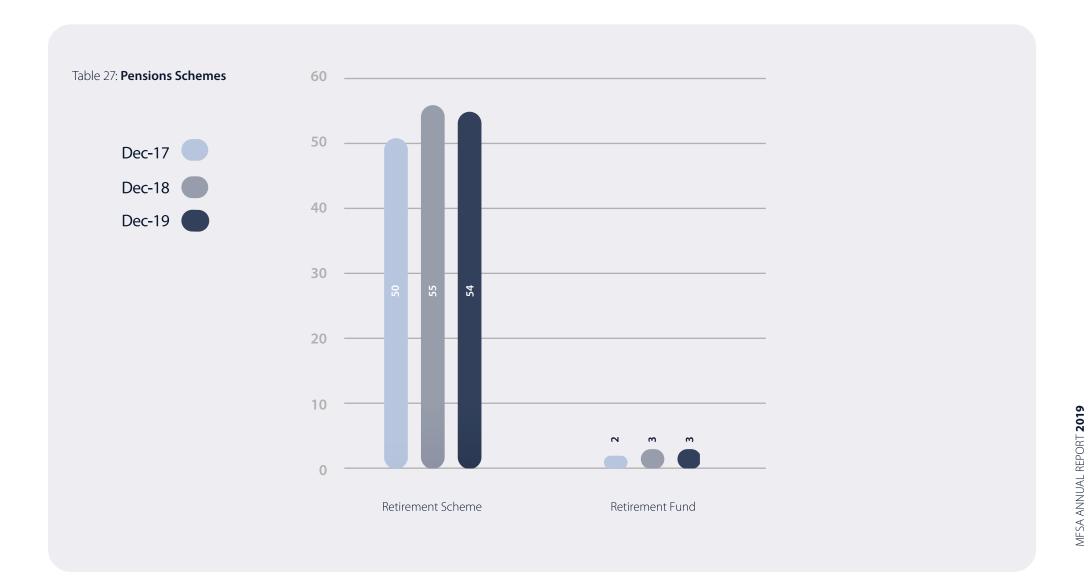
³ The insurance penetration rate is expressed as the gross written premiums in respect of risks and commitments in Malta to gross domestic product.

⁴ Figures for undertakings with Head Office outside Malta writing general and long-term business in relation to risks in Malta during 2019 were unavailable at the time of preparation of this report.

Year	General Business - HO Malta	General Business - HO outside Malta	Long-term Business - HO Malta	Long-term Business - HO outside Malta
2017	316.3	241.0	806.0	357.3
2018	345.9	700.0	810.7	365.6

⁵ The insurance density is expressed as the gross written premiums in respect of risks and commitments based in Malta to population size.

⁶ Figures for undertakings with Head Office outside Malta writing general and long-term business in relation to risks in Malta during 2019 were unavailable at the time of preparation of this report.



9

Appendices

3 5 8 6 Chairman's Chief How We Are What We Our Cross-Sector Our Sector-Specific Financial Statistical Foreword Compendium Executive's Structured Regulate Priorities Priorities Statements Statement



⁷ December 2019 figures are provisional figures.



Chairman's

Foreword

What We Regulate

5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

Financial Statements

8 Statistical Compendium

APPENDIX 1 – Financial Services Legislation published in 2019

Primary Legislation

- 1) Financial Markets Amendment Act, 2019
 - Published as Act IX of 2019 on 29.03.19
- 2) Malta Financial Services Authority (Amendment) Act, 2019
 - Published as Act VIII of 2019 on 29.03.19
- 3) Various Financial Services Laws (Amendment) Act, 2019
 - Published as Act XXVI of 2019 on 02.08.19

Secondary Legislation

- 1) Investment Services Act (Money Market Funds) Regulations, 2019
 - Published as LN 25 of 2019 on 12.02.19
- 2) Depositor Compensation Scheme (Amendment) Regulations, 2019
 - Published as LN 43 of 2019 on 08.03.19
- 3) Banking Act (Supervisory Review) (Amendment) Regulations, 2019
 - Published as LN 76 of 2019 on 16.04.19
- 4) Supervisory Consolidation (Amendment) Regulations, 2019
 - Published as LN 75 of 2019 on 16.04.19
- 5) Recovery and Resolution (Amendment) Regulations, 2019
 - Published as LN 279 of 2019 on 05 11 19

- 6) Equity Release Financial Products Regulations, 2019
 - Published as LN 193 of 2019 on 06.08.19
- 7) Interest Rate (Exemption) (Amendment) Regulations, 2019
 - Published as LN 196 of 2019 on 06.08.19
- 8) European Passport Rights for Investment Firms (Amendment) Regulations, 2019
 - Published as LN 243 of 2019 on 24.09.19
- 9) Investment Services Act (UCITS Management Company Passport) (Amendment) Regulations, 2019
 - Published as LN 242 of 2019 on 24 09 19
- 10) Investment Services Act (Alternative Investment Fund Manager) (Passport) (Amendment) Regulations, 2019
 - Published as LN 244 of 2019 on 24.09.19
- 11) Declaration of Bank Holidays Order, 2019
 - Published as LN 331 of 2019 on 11.12.19

1 2 Chairman's Chief Executive's Statement

3 How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

APPENDIX 2 - Rules issued or amended in 2019

Banking

Banking Rule BR/09

Two new Annexes have been introduced to BR/09 on the "Measures addressing credit risks arising from the assessment of the quality of asset portfolios of Credit Institutions authorised under the Banking Act".

- Annex 1 Connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013: In implementing EBA Guidelines EBA/GL/2017/15, the MFSA introduced Annex 1 to this Rule to clarify the treatment of connected clients under Article 4(1)(39) of the Regulation (EU) No 575/2013 (the CRR). Annex 1 now specifies how credit institutions must apply the requirement to group two or more clients into a "group of connected clients" since they constitute a single risk as defined in Article 4(1)(39) of the CRR. Credit institutions shall assume that two or more clients constitute a single risk in the instance that there is a control relationship between them, which is assessed according to the criteria set out in the Annex. Furthermore, provision is made for the establishment of interconnectedness based on economic dependency, according to Article 4(1)(39)(b) of the CRR, together with control and management procedures to be established by credit institutions for identifying connected clients.
- Annex 2 Limits on exposures to shadow banking entities: This new Annex wholly implements EBA Guidelines EBA/GL/2015/20, which sets limits on exposures to shadow banking entities that carry out banking activities outside a regulated framework under Article 395(2) of the CRR. This prescribes the approach and lays out the methodology which credit institutions shall adopt as part of their internal processes and policies, to handle risk arising from exposures to shadow banking. Such entities are generally not subject to the same standard of prudential regulation in accordance with Article 395(2) of the

CRR, do not protect investors' investment from these entities' failures and do not have access to central banks' liquidity facilities. Therefore, this Annex sets out the credit institutions' provision of specific limits for appropriate individuals and aggregates limits for such exposures. Credit institutions are required to establish an internal framework to identify, manage, control and mitigate the risks arising from exposures to shadow banking entities, which framework is overseen by the Board of Directors of the credit institutions.

Banking Rule BR/12

Two Annexes have been introduced to BR12/2014 on "The Supervisory Review Process of Credit Institutions authorised under the Banking Act 1994."

- Annex 2K Implicit Support for Securitisation Transactions: A new Annex was introduced to implement the EBA Guidelines on implicit support for securitisation transactions. The objective of these changes is to provide clarifications on what constitutes arm's length conditions and to specify when a transaction is not structured to provide support for securitisations. In line with the EBA Guidelines, this Annex identifies an objective test which shall be followed in order to define the conditions of arm's length and to assess whether a transaction is not structured to provide support for the purposes of the CRR. Moreover, Annex 2K lays down the notification requirements applicable to such transactions and provisions.
- Annex 2J Market Risk Calculation of General Interest Rate Risk on Debt Instruments: The Duration-Based Approach: Another new Annex has been introduced to BR/12/2014 to implement the EBA Guidelines on corrections to modified duration for debt instruments for the purposes of market risk. This Annex specifies what type of adjustments to modified duration (as defined in the CRR) should be performed in order to adequately reflect the effect of prepayment risk. These Guidelines are aimed at those institutions which make use of the duration-based calculation, which is one of two standardised methods provided by the CRR to calculate capital requirements in relation to general interest rate risk. In this regard, two approaches to correct modified

1	2
Chairman's	Chief
Foreword	Executive
	Statemer

2	
hief	
xecutive's	
tatement	

3	4
How We Are	What We
Structured	Regulate

Appendices

duration can be used. The first approach treats the instrument with embedded optionality as if it were a combination of a plain vanilla bond as an option whilst the second approach proposes to directly calculate the change in value of the whole instrument subject to prepayment risk. Moreover, institutions are required to compute additional adjustments to reflect the negative convexity as well as transaction costs and, where relevant, behavioural factors that may affect the modified duration of the instrument

In addition to the above, minor revisions were made to Annex 2C of BR/12 to insert the definitions of 'Discretionary Pension Benefits' and 'Securitisation Special Purpose Entity (SPPE). These definitions will apply to the main BR/12 as well as the other Annexes to this Rule. The definitions reflect those provided for in Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV).

Banking Rule BR/14

Annex 1, on outsourcing cloud service providers, has been introduced to BR/14 on Outsourcing by Credit Institutions, authorised under the Banking Act 1994. This introduction constitutes the full implementation of the EBA Recommendations (EBA/REC/2017/03) and provides the necessary clarity for credit institutions when adopting cloud computing and cloud outsourcing. The Annex sets out requirements related to the security of the data and systems used, and addresses the treatment of data and data processing locations in the context of cloud outsourcing. Credit institutions must abide by the provisions of this Annex regarding the contractual and organisational arrangements for contingency plans and exit strategies that shall be in place in relation to cloud outsourcing.

BR/14 has also been amended to align it with the recent amendments made to the Banking Act, which were effected to transpose Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (PSDII). In particular, the Rule has been amended to eliminate the details on the necessity of recognition of the outsourcing service

provider by the Authority and the provision of such outsourced services.

Nevertheless, the MFSA is currently wholly revising BR/14 in view of the recently published EBA Guidelines on Outsourcing Arrangements (EBA/GL/2019/02), which will be implemented in BR/14. Changes introduced through these EBA Guidelines may also affect Annex 1 to BR/14.

Banking Rule BR/15

Parallel to the afore-mentioned minor revisions undertaken to Annex 2C of BR/12, BR/15 on Capital Buffers of Credit Institutions authorised under the Banking Act 1994 has also been amended to introduce the definition of 'Discretionary Pension Benefits'. This also reflects the definition provided for in the CRD IV.

Banking Rule BR/20

The Authority has introduced this new BR/20 on "Recovery Plans for Credit Institutions authorised under the Banking Act". This new Rule prescribes the range of scenarios to be used by credit institutions in recovery plans, the minimum list of qualitative and quantitative recovery plan indicators, the coverage of entities in group recovery plans and provisions dealing with simplified obligations in relation to recovery plans. BR/20 implements the provisions of the following EBA Guidelines or Recommendations:

- EBA Guidelines on the range of scenarios to be used in recovery plans (EBA/ GL/2014/06), that specify the range of scenarios of severe macroeconomic and financial distress which are to be considered by credit institutions to test the effectiveness of recovery options and the adequacy of the indicators contained in their recovery plans.
- EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators (EBA/GL/2015/02), which provide credit institutions with a set of indicators to identify circumstances that may lead to a significant deterioration

1 Chairman's Chief How We Are Structured Structured

4 What We Regulate 5 Our Cross-Sector Priorities

Our Sector-Specific Priorities / Financial Statements Statistical
Compendium

9 Appendices

in their financial position in pursuance of the Regulations. In this respect, the Rule also includes Annex I, which provides a list of categories of recovery plan indicators and Annex II, which specifies the minimum list of recovery plan indicators that should be included under the rebuttable presumption as explained therein. In addition, Annex III provides an additional, non-exhaustive list of recovery plan indicators provided for illustration purposes.

- EBA Recommendation on the coverage of Entities in a Group Recovery Plan (EBA/REC/2017/02), which provides for the requirements of group recovery planning.
- Finally, BR/20 also caters for simplified obligations of recovery planning in light of the Commission Delegated Regulation (EU) 2019/348 of 25 October 2018 supplementing Directive 2014/59/EU of the European Parliament and of the Council, with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions and the Final Report Draft Regulatory Technical Standards on Simplified Obligations under Article 4(6) of Directive 2014/59/EU (EBA/RTS/2017/11).

Banking Rule BR/21

The newly-introduced BR/21 on "Remuneration Policies and Practices" governs sound remuneration policies for all credit institutions' staff and for staff whose professional activities have a material impact on a credit institution's risk profile, in compliance with Directive 2013/36/EU (CRD) on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. In view of this, Annex 2E of BR/12 on 'Remuneration Principles: Policy, Committee and Elements' was also deleted due to its incorporation into this new Rule. BR/21 also implements the requirements specified in the following EBA Guidelines:

• EBA Guidelines on Sound Remuneration Policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Articles 450 of the Regulation

- (EU) No 575/2013 (EBA/GL/2015/22) and provides guidance on disclosures under Article 96 of Directive 2013/36/EU.
- EBA Guidelines on Remuneration Policies and Practices related to the Sale and Provision of Retail Banking Products and Services (EBA/GL/2016/06), which mainly specify the requirements for the design and implementation of remuneration policies and practices, in relation to the offering or provision of banking products and services to consumers by credit institutions, with a view to protecting consumers from undesirable detriment arising from the remuneration of sales staff
- EBA Guidelines on the 'Applicable Notional Discount Rate for Variable Remuneration' (EBA/GL/2014/01), which have been implemented as Annex 1 to the Rule, and cater for the calculation of the ratio between the variable and fixed component of the total remuneration awarded for service provided or performance as from 2014.

Financial Institutions Rule FIR/01, FIR/02 and FIR/03

These three Financial Institutions Rules have been revised in order to align them with the amendments previously carried out to the Financial Institutions Act, which was amended to transpose the PSDII.

• Financial Institutions Rule FIR/01: The amendments introduced in FIR/01 on "Application Procedures and Requirements for Authorisation under the Financial Institutions Act 1994", are aimed at transposing Article 5 of the PSDII and take into consideration the introduction of payment initiation services and account information services, introduced in the Second Schedule of the Financial Institutions Act, implementing Annex 1 of the PSDII. Furthermore, a new procedure was introduced for the processing of applications for registration of account information service providers. Applicants for a licence or a registration, as applicable, to provide payment initiation services and/or account information services, must now, as a condition for the granting of the licence or registration as applicable, hold

1 Chairman's Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	-----------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

a professional indemnity insurance covering the territories in which it offers services, or some other comparable guarantee against liability.

FIR/01 was amended to implement the EBA Guidelines on the information to be provided by applicants intending to obtain authorisation as payment and electronic money institutions as well as to register as Account Information Service Providers (AISP) under the PSDII (EBA/GL/2017/09). In this regard, FIR/01 is supplemented with the newly-introduced Annexes I, II, III and IV described below:

- Annex I on information required from applicants for authorisation as Payments Institutions (PIs)
- Annex II on information required from applicants for authorisation as Account Information Service Providers (AISPs)
- Annex III on information required from applicants for authorisation as Electronic Money Institutions (EMIs)
- Annex IV on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantee. This Annex is being introduced to provide further detail in relation to the obligation laid down in the provisos to Article 5(1B) of the Financial Institutions Act, which provide that all applicants for a licence or registration to provide payment initiation services and/or account information services, shall be required to hold a professional indemnity insurance covering the territories in which the institution offers its services as a condition for the granting of their licence or registration. This Annex implements the provisions prescribed in the EBA Guidelines on the criteria of how to calculate the minimum monetary amount of the professional indemnity insurance or other comparable guarantee under Article 5(4) of the PSDII (EBA/GL/2017/08).

FIR/01 is also accompanied by two new application forms. Application Form 1A should be submitted by applicants for a licence to provide any of

the activities listed in the First Schedule to the Act (which include activities (a)-(g) of the Second Schedule to the Act or service (h) in combination with other payment services or the activity listed in the Third Schedule to the Act). Form 1A will therefore replace the current application form. Application Form 1B should be submitted by applicants for registration to provide account information services only.

- Financial Institutions Rule FIR/02: FIR/02 on the "Supervisory and Regulatory Requirements of Institutions authorised under the Financial Institutions Act 1994" has also been amended to reflect the amendments made to the Financial Institutions Act, following the transposition of the PSDII, in particular, Article 9 of the said Directive. This lays out the methods that payment institutions shall use to calculate the amount of own funds. In this respect, amendments were made regarding the scaling factor (k) to be used in two of the three methods for the calculation of the amount of own funds, which reflect such changes brought about by the PSDII. FIR/02 has also been amended in view of the removal of the institution's requirement to seek the Authority's recognition in the case of an outsourcing service provider in terms of Article 8B of the Financial Institutions Act.
- Financial Institutions Rule FIR/03: Amendments to FIR/03 on the "Taking up, Pursuit and Prudential Supervision of the Business of Financial Institutions authorised to Issue Electronic Money under the Financial Institutions Act 1994" were effected to reflect the deletion of the waiver of the application of provisions on the general prudential requirements, initial capital, own funds and safeguarding requirements in certain cases in Article 3(7) of the Financial Institutions Act. For institutions to determine whether assets are secure and low-risk, reference is being made to the categories set out in Article 366 of the CRR.

Conduct of Business

Revision of the Conduct of Business Rulebook

During 2019, the MFSA published an updated version of the Conduct of Business Rulebook (originally issued in 2017) which can be accessed through the Authority's

3 5 Chief How We Are What We Our Sector-Specific Statistical Chairman's Our Cross-Sector **Financial Appendices** Foreword Executive's Structured Regulate Priorities Priorities Statements Compendium Statement

website. The main amendments carried out to the Rulebook were the following:

- new rules on the key information document emanating from the PRIIPs Regulation and the Commission Delegated Regulation supplementing the PRIIPS regulation;
- new requirements for Cross-Selling Practice Applicable to the Securities Sector:
- the implementation of National Product Intervention measures in relation to Binary Options;
- new disclosure requirements emanating from the Shareholder Rights Directive II;
- amendments to the Rules dealing with conflicts of interests' requirements for Insurance Undertakings and/or Intermediaries; clarification regarding the applicability of the marketing rules in relation to new products offered to clients; amendments to the applicable rules dealing with the provision of information via the KID or IPID as well as amendment of the applicable Rule dealing with the reviews to be carried out by Manufacturers; and
- additional conduct of business requirements applicable to the Insurance Sector.

Equity Release Financial Products Rulebook

During 2019, the MFSA had been working on the Rules applicable to Credit and Financial Institutions when offering Equity Release Financial Products to pensioners. The Rulebook will include requirements on the Registration Process as well as the Ongoing Obligations. The Chapter dealing with the Registration Process, as well as the remaining four Chapters dealing with the Ongoing Obligations, was issued for consultation for the relevant stakeholders to provide feedback to the Authority. Furthermore, meetings with the relevant Associations and industry participants were held in order to discuss certain requirements included in the Chapters issued for Consultation. Credit and Financial Institutions wishing to offer Equity Release Financial Products can now submit the relevant documents to the Authority to be registered and be authorised to offer Equity Release Financial Products to pensioners.

Insurance and Pensions

Amended Chapter 9 of the Insurance Rules

On 16 April 2019, the MFSA amended paragraphs 9.7 and 9.16 of Chapter 9 on Freedom of Establishment and Freedom to provide services by a European Insurance Undertaking and a European Reinsurance Undertaking of the Insurance Rules. The new amendments refer to Annexes I and II of the Insurance Rules respectively. Annex I contains the General Good Provisions which apply to a European insurance undertaking establishing a branch in Malta in terms of the European Passport Rights for Insurance and Reinsurance Undertaking Regulations 2015. Annex II contains the General Good Provisions for European Insurance Undertakings providing services in Malta through the freedom of services in terms of the European Passport Rights for Insurance and Reinsurance Undertakings Regulations, 2015.

Amended Chapter 8 of the Insurance Rules related to the External Audit of the Solvency II Regulatory Returns

On 16 April 2019, the MFSA amended paragraph 8.10 in order to make it obligatory for authorised insurance and reinsurance undertakings to submit to the MFSA a copy of the auditor's management letter and the undertakings' reply thereto.

New Appendix 13 to the Pension Rules for Occupational Retirement Schemes

On 5 July 2019, the MFSA issued a new Appendix 13 - Encouragement of Long-Term Shareholder Engagement in Part C of the said Pension Rules which came into force on 10 June 2019. Appendix 13 transposes the provisions of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC regarding the encouragement of long-term shareholder engagement. In terms of the said Appendix, an Occupational Retirement Scheme which invests directly, or through an Investment Manager, in shares traded on a regulated market, is required to comply with the requirements laid down in the new Appendix 13 of these Pension Rules Occupational Retirement Schemes.

1 Chairman's Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	7 Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	-----------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	------------------------------	--------------------------------	-----------------

New Annex III to Chapter 6: Systems of Governance

On 5 July 2019, the MFSA issued a new Annex III - Encouragement of Long-Term Shareholder Engagement. Annex III transposes the provisions of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC regarding the encouragement of long-term shareholder engagement. The said Annex came into force on 10 June 2019. An authorised undertaking carrying on long term business of insurance will be required to comply with the requirements set out in the new Annex III to the said Insurance Rules

Securities and Market Supervision

Local Firms Regime and updates to MIFID Firms Rules:

An in-depth study was conducted comparing EU jurisdictions to assess the implementation, application, and supervision of Local Firms. Following this exercise, Part BI of the Investment Services Rules was updated to introduce the Local Firms Regime. In addition to this, several updates were made to Part A and BI: Rules applicable to Investment Services Licence Holders which qualify as MiFID Firms. A summary can be found in this <u>Circular</u>.

Money Market Funds

In 2019, the Investment Services Act (Money Market Funds) Regulations were published. To this end, the previously applicable Rules were amended to reflect the Money Market Fund Regulations.

Amendments to the Listing Rules

During 2019, the Listing Authority amended the Listing Rules, specifically Chapter 5 and Chapter 12 of the Listing Rules. During February 2019, Chapter 12 was amended for the purposes of the transposition of Article 121 of Directive 2014/59/EU of the

European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms. With effect from 1 July 2019, as a result of the transposition of the requirements of the Shareholders Rights Directive II (SRD II), the Definitions section, as well as Chapter 5 and Chapter 12 of the Listing Rules, were amended in order to reflect the additional requirements emanating from the Shareholders Rights Directive.

Cross Sub-Fund Investments in Retail Collective Investment Schemes

The Authority reviewed its position in relation to cross sub-fund investments in Retail Collective Investment Schemes (RCIS) and is now allowing such funds, subject to several conditions. The RCISs were amended to reflect this accordingly.

Virtual Financials Assets

Amendments to Chapter 3 of the Virtual Financial Assets Rulebook were made.

1 Chairman's Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	-----------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

APPENDIX 3 – Circulars issued in 2019

Anti-Money Laundering

25/09/2019	Cybersecurity – Inreat Mitigation
06/11/2019	Supervision: Risks Identified Weaknesses and Expected Controls

Banking Supervision

241114111924	
11/01/2019 04/02/2019 07/02/2019	Circular to Credit Institutions on Banking Rule BR/09 Circular to Credit Institutions on Banking Rule BR/14 Circular to Credit Institutions on Annex 2C of Banking Rule BR/12 and Banking Rule BR/15
07/02/2019	Circular to Financial Institutions on Banking Rule BR/14
13/02/2019	Circular to Applicants who are required to complete a Personal Questionnaire
22/03/2019	Circular to Credit Institutions and branches on changes on submissions of ITS on Supervisory Reporting data
22/03/2019	Publication of a new Credit Intermediaries' Rule
30/05/2019	Circular to Licence Holders and Applicants for a Licence: Submission of Applications
27/06/2019	Circular on the introduction of two new Banking Rules and two new Annexes to BR/12
28/08/2019	Rules on Equity Release Financial Products
19/09/2019	Circular to Foreign Branches on Supervisory Reporting Requirements to the MFSA
25/09/2019	Cybersecurity – Threat Mitigation
04/10/2019	Rules on Equity Release Financial Products
07/10/2019	Rules on Equity Release Financial Products
31/10/2019	Circular to Credit Institutions on Amendments to Banking Rule BR/14
31/10/2019	Circular to Financial Institutions on the Amendments to Financial Institutions Rules FIR/01, FIR/02 and FIR/03

06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls
11/12/2019	Circular to credit institutions including foreign branches on the
	revised ITS on Supervisory Reporting – ITS v2.9

Circular to Applicants who are required to complete a Personal

Company Service Providers

13/02/2019

	Questionnaire
02/04/2019	Circular addressed to Companies and individuals registered to act
	as a Company Service Provider in terms of the Company Service
	Providers Act
30/05/2019	Circular to Licence Holders and Applicants for a Licence:
	Submission of Applications
25/09/2019	Cybersecurity – Threat Mitigation
06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls
24/12/2019	Circular on the Consultation Document on Raising the Bar for
	Company Service Providers

Conduct of Business

03/01/2019	Update: Circular addressed to Credit Institutions – Imposition of Negative Interest Rates on Euro Denominated Deposits
03/04/2019	Revisions made to Conduct of Business Rulebook
04/06/2019	ESMA Technical Advice on Integrating Sustainability Risks and Factors in MiFID II
06/06/2019	ESMA MiFID II/MiFIR Investor Protection and Intermediaries Q&As
14/06/2019	Common Supervisory Action on MiFID II Appropriateness Rules
17/07/2019	ESMA consults on certain aspects of the MiFID II Compliance Function requirements
18/07/2019	Submission of Conduct-Related Data Returns and List of Financial Instruments
18/07/2019 22/07/2019	ESMA MiFID II/MiFIR Investor Protection Q&As Conduct of Business Rulebook Revisions

REPORT 2019
IFSA ANNUAL REPC
MFSA A

8 Statistical

Compendium

9 Appendices

23/07/2019	ESMA's Public Statement on the application of product	24/05/2019	VFA Agents Approved Courses	
	intervention measures under Article 40 and 42 of Regulation (EU)	03/06/2019	AML/CFT Approved Courses for VFA Issuers & VFA Service Providers	
/ /	No. 600/2014 (1) (MiFIR) by CFD providers	18/06/2019	FIAU and MFSA publish joint Guidance Document for Institutions	
25/07/2019	Application of Host Country National Product Intervention	06/00/2010	opening accounts for FinTechs	
05/08/2019	Measures Call for Evidence – Impact of the inducements and costs and	06/09/2019 13/09/2019	Circular to Virtual Financial Asset Service Providers AML/CFT Approved Courses for VFA Issuers & VFA Service Providers	
03/06/2019	charges disclosure requirements under MiFID II	25/09/2019	Cybersecurity – Threat Mitigation	
20/08/2019	Conduct of Business Rulebook Revisions	02/10/2019	AML/CFT Approved Courses for VFA Issuers & VFA Service Providers	
10/09/2019	Enhancements to the online portal for the Trusts Ultimate	25/10/2019	Circular to the Industry	
	Beneficial Ownership Register (TÜBOR)	10/12/2019	Circular to Virtual Financial Asset Service Providers in relation to	
25/09/2019	Cybersecurity – Threat Mitigation		Amendments to Chapter 3 of the Virtual Financial Assets Rulebook	
02/10/2019	Revisions to the Conduct-Related Data Return	Incurance	and Dansions Cunomision	
04/10/2019	Rules on Equity Release Financial Products	Insurance and Pensions Supervision		
29/10/2019	EIOPA issues Warning to Insurance Undertakings and Insurance Intermediaries to Tackle High Commissions for Travel Insurance	Insurance and	Insurance and Pensions	
	Products			
31/10/2019	Submission of the Conduct Related Data Return Change in	15/01/2019	Circular to Licensed Retirement Funds to submit the half-yearly	
	Naming Convention		and annual report as stipulated under Part B of the Pension Rules for Retirement Funds issued in terms of the Retirement Pensions	
06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls		Act, 2011	
12/11/2019	Joint Consultation Paper concerning amendments to the PRIIPs KID	15/01/2019	Circular to Licensed Personal and Occupational Retirement	
10/12/2019	Circular addressed to Credit Institutions operating in Malta –		Schemes to submit the half-yearly and annual report as stipulated	
	Mystery shopping exercise on the opening of bank accounts		under Part B of the respective Pension Rules issued in terms of the	
Financial S	Financial Stability		Retirement Pensions Act, 2011	
		04/02/2019	Public Consultation: IOPS Supervisory Guidelines on the Integration	
25/09/2019	Cybersecurity – Threat Mitigation		of ESG Factors in the Investment and Risk Management of Pension Funds	
FinTech		13/02/2019	Circular to Applicants who are required to complete a Personal	
rimeen		13/02/2013	Ouestionnaire	
14/01/2019	VFA Agents Approved Courses	16/04/2019	Note for Information – Amendments to the Insurance Rules	
15/01/2019	Circular to Issuers of VFAs		relating to the External Audit of the Solvency II regulatory returns	
25/01/2019	Circular – A Status Update on the VFA Framework	16/04/2019	Note for Information – Amendments to Insurance Rules	
25/02/2019	Circular – Publication of the Virtual Financial Assets Rules for VFA	30/05/2019	Circular to Licence Holders and Applicants for a Licence:	
	Service Providers		Submission of Applications	

5 Our Cross-Sector

Priorities

6 Our Sector-Specific

Priorities

Financial

Statements

3 How We Are

Structured

What We

Regulate

1 Chairman's

Foreword

Chief

Executive's

Statement

8 Statistical

Compendium

9 Appendices

	12/06/2019	Circular addressed to Enrolled Persons carrying on Insurance	19/09/2019	ESMA Publishes Guidelines on Liquidity Stress Testing in UCITS
		Intermediaries Activities who are required to submit the	/ /	and AIFs
		Management Accounts, Compliance Statements/BOIIS, Audited	25/09/2019	Cybersecurity – Threat Mitigation
		Financial Statements and Management Letters in terms of their	17/10/2019	Circular on the Submission of Regulatory Reporting in relation
	22/07/2019	licensing conditions Note for Information in relation to Consultation Paper on Proposals		to Collective Investment Schemes, Recognised Persons and Investment Services Licence Holders
	22/0//2019	for Solvency II 2020 Review on the Harmonisation of National	06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls
		Guarantee Schemes	00/11/2019	Supervision. Historia Identifica, Wedikilesses and Expected Controls
	25/09/2019	Cybersecurity – Threat Mitigation	BRRD	
	06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls		
	11/11/2019	Circular on the contents to be included in the Written Declaration	25/09/2019	Cybersecurity – Threat Mitigation
		to be submitted to the MFSA on Continuous Professional		
		Development Requirements	Collective Inve	<u>estment Schemes</u>
	Solvency II		14/01/2019	Circular on Commission Delegated Regulations on safe-keeping
			1 1/ 0 1/ 2019	duties of depositaries
	25/09/2019	Cybersecurity – Threat Mitigation	14/01/2019	Circular – Brexit: UK FCA Temporary Permissions Regime
	06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls	06/02/2019	Circular to the Collective Investment Schemes, Fund Managers
	Resolution			and Depositaries on ESMA Liquidity Stress Test Guidance
	Resolution		14/02/2019	Circular – Cross Sub-Fund Investments in Retail Collective
	05/09/2019	Circular to Institutions with Resolution as their Preferred Resolution	14/02/2010	Investment Schemes Circular on the agreement between FSMA and FLL Securities
		Strategy	14/02/2019	Circular on the agreement between ESMA and EU Securities Regulators with the UK's Financial Conduct Authority as part of a
	25/09/2019	Cybersecurity – Threat Mitigation		no-deal Brexit Scenario
	16/10/2019	Circular to Institutions on a new CRR Requirement	28/03/2019	Circular on a proposed Temporary Permission Regime (TPR) for
	Ci+i	und Mandrata Communician		UK Investment Funds, Asset Managers and Investment Firms
Securities and		nd Markets Supervision		passporting into Malta in relation to a No-Deal Brexit Scenario
	AIFMD		06/05/2019	Revision to Rulebooks applicable to Collective Investment Schemes
	<u>/ 111 171 D</u>		17/05/2019	Frequently Asked Questions – Implications of a Hard Brexit on the
	14/01/2019	Circular on Commission Delegated Regulations on safe-keeping	30/05/2019	local asset management industry Circular to Licence Holders and Applicants for a Licence:
		duties of depositaries	30/03/2019	Submission of Applications
	30/05/2019	Circular to Licence Holders and Applicants for a Licence:	20/06/2019	Updates on ESMA AIFMD and UCITS Q&As in relation to the
		Submission of Applications		depositary function

5 Our Cross-Sector

Priorities

6 Our Sector-Specific

Priorities

Financial

Statements

3 How We Are

Structured

What We

Regulate

1 Chairman's

Foreword

Chief

Executive's

Statement

	19
	REPORT 2019
	JAL
	MFSA ANNI

9 Appendices

8

Statistical

Compendium

28/06/2019	ESMA Consults on Short-Termism in Financial Markets	1	(Refit)
11/07/2019	Circular to provide an update on the proposed Temporary	20/06/2019	Circular on the Questions and Answers on practical questions
.,, .,, _,,	Permission Regime (TPR) for UK Investment Funds, Asset		regarding Regulation (EU) No. 648/2012 – the European Market
	Managers and Investment Firms passporting into Malta in		Infrastructure Regulation (EMI)
	relation to a No-Deal Brexit Scenario	25/09/2019	Cybersecurity – Threat Mitigation
23/07/2019	ESMA Issues Stress Testing Requirements for Money Market Funds	06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls
31/07/2019	ESMA Publishes Consultation Paper on Performance Fees in UCITS	21/11/2019	Clarification on the Classification of Collective Investment
19/09/2019	ESMA Publishes Guidelines on Liquidity Stress Testing in UCITS		Schemes as Financial Counterparties
	and AIFs		1.51
25/09/2019	Cybersecurity – Threat Mitigation	<u>European Sin</u>	gle Electronic Format (ESEF)
15/10/2019	Circular on Self-Assessment on Potential Closet Indexing by	05/03/2019	ESEF – Tutorial 2
.= / /	Collective Investment Schemes Targeting Retail Investors	26/03/2019	European Single Electronic Format (ESEF) – XBRL Taxonomy
17/10/2019	Circular on the Submission of Regulatory Reporting in relation	03/06/2019	ESEF – Regulatory Technical Standards (RTS)
	to Collective Investment Schemes, Recognised Persons and	06/06/2019	Publication of Frequently Asked Questions on ESEF with respect
24/10/2010	Investment Services Licence Holders Circular on the Submission of the CBM Investment Funds Statistical	00,00,2013	to Issuers
24/10/2019	Return	11/06/2019	European Single Electronic Format (ESEF) – Integration of IFRS
06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls		Updates in the ESEF Taxonomy
05/12/2019	Common Fund Reporting Issues with regard to the CBM	26/06/2019	Eurofiling Conference June 2019, Frankfurt – Speech by Steven
03/12/2017	Investment Funds Statistical Return		Maijoor, ESMA Chair
	investment rands statistical netarn	24/07/2019	ESMA Updates the ESEF Reporting Manual
CRD IV Packad	ge	08/08/2019	ESEF XBRL Website Updates
	, -	12/09/2019	European Single Electronic Format (ESEF) – Tutorial 3
25/09/2019	Cybersecurity – Threat Mitigation	25/09/2019	Cybersecurity – Threat Mitigation
	, , ,	02/10/2019	Circular in relation to the amendment of the Delegated Regulation
<u>EMIR</u>			(EU) 2019/815 with regard to updates of the taxonomy to be used
		10/12/2019	for the single electronic reporting format Auditors' involvement on financial statements in ESEF
05/02/2019	Circular on Regulation (EU) No. 648/2012 – The European Market	17/12/2019	Circular in relation to the amendment of the Delegated Regulation
	Infrastructure Regulation (EMIR)	1// 12/ 2019	(EU) 2019/2100 with regard to updates of the taxonomy to be used
06/06/2019	Circular on Regulation (EU) No. 2019/834 – the European Market		for the single electronic reporting format
	Infrastructure Regulation (EMIR) Regulatory Fitness Programme	24/12/2019	European Single Electronic Format (ESEF) – 2019 XBRL Taxonomy
17/06/2010	(Refit) Circular on Population (FLI) No. 2010/024 the European Market	2., .2, 2019	
17/06/2019	Circular on Regulation (EU) No. 2019/834 – the European Market Infrastructure Regulation ('EMIR') Regulatory Fitness Programme		
	illiastructure negulation (Elvin) negulatory fittless Plogramme		

5 Our Cross-Sector

Priorities

6

Priorities

Our Sector-Specific

Financial

Statements

3 How We Are

Structured

What We

Regulate

Chairman's

Foreword

Chief

Executive's

Statement

9 Appendices

8

Statistical

Compendium

Financial Mark	<u>kets</u>	28/03/2019	Circular on a proposed Temporary Permission Regime (TPR) for
09/01/2019	Consultation on Guidelines on Settlement Fails Reporting and		UK Investment Funds, Asset Managers and Investment Firms passporting into Malta in relation to a No-Deal Brexit Scenario
	Standardised Procedures and Messaging Protocols under the CSDR	17/05/2019	Frequently Asked Questions – Implications of a Hard Brexit on the
06/06/2019	Circular on the revised Financial Market Rules for Trading Venues,		local asset management industry
20/06/2019	DRSPs and Central Securities Depositories Circular on Regulation (EU) No. 909/2014 – the Central Securities	30/05/2019	Circular to Licence Holders and Applicants for a Licence Submission of Applications
20,00,2019	Depositories Regulation (CSDR)	20/06/2019	Updates on ESMA AIFMD and UCITS Q&As in relation to the
04/07/2019	Circular on Regulation (EU) No. 909/2014 – the Central Securities	20,00,2019	depositary function
16/07/2019	Depositories Regulation (CSDR)	28/06/2019	ESMA Consults on Short-Termism in Financial Markets
16/0//2019	Circular on Regulation (EU) No. 909/2014 – the Central Securities Depositories Regulation (CSDR)	11/07/2019	Circular to provide an update on the proposed Temporary Permission Regime (TPR) for UK Investment Funds, Asset Managers and Investmen
16/09/2019	Circular on Regulation (EU) No. 909/2014 – the Central Securities		Firms passporting into Malta in relation to a No-Deal Brexit Scenario
	Depositories Regulation (CSDR)	23/07/2019	ESMA Issues Stress Testing Requirements for Money Market Fund
25/09/2019 28/11/2019	Cybersecurity – Threat Mitigation Circular on Regulation (EU) No. 909/2014 – Internalised Settlement	31/07/2019	ESMA Publishes Consultation Paper on Performance Fees in UCIT
20/11/2019	Test Environment	23/08/2019	Update to Part BI: Rules applicable to Investment Services Licenc Holders which qualify as MiFID Firms ("the Rules")
23/12/2019	Circular on Regulation (EU) No. 909/2014 – Go Live of the	25/09/2019	Cybersecurity – Threat Mitigation
	Internalised Settlement Reporting Mechanism	04/10/2019	Circular to Custodians regarding LH Portal Submissions
Investment Se	ervices	17/10/2019	Circular on the Submission of Regulatory Reporting in relation to Collective Investment Schemes, Recognised Persons and
			Investment Services Licence Holders
14/01/2019	Circular on Commission Delegated Regulations on safe-keeping duties of depositaries	06/11/2019	Update to Part BI: Rules applicable to Investment Services Licenc
14/01/2019	Circular – Brexit: UK FCA Temporary Permissions Regime	06/11/2010	Holders which qualify as MiFID Firms (the Rules)
06/02/2019	Circular to the Collective Investment Schemes, Fund Managers	06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls
13/02/2019	and Depositaries on ESMA Liquidity Stress Test Guidance	MiFID and Mi	<u>iFIR</u>
13/02/2019	Circular to Applicants who are required to complete a Personal Ouestionnaire	11/01/2019	Updates relating to MiFID II and MiFIR
14/02/2019	Circular on the Regulatory Framework for CRR Local Firms within	06/02/2019	Notice of availability of the MiFID II Phase 2 testing portal through
1.4.100.1001.0	the Maltese MiFID Investment Firms' Framework		the Managed File Transfer solution
14/02/2019	Circular on the agreement between ESMA and EU Securities Regulators with the UK's Financial Conduct Authority as part of a	11/02/2019	Updates on the TREM XML Schema Version 1.1.0 Go-live Date
	no-deal Brexit Scenario	31/07/2019	Circular on Regulation (EU) No. 600/2014 on Markets in Financial Instruments (MiFIR)

5

Our Cross-Sector

Priorities

What We

Regulate

6

Priorities

Our Sector-Specific

Financial

Statements

3

How We Are

Structured

Chief

Executive's

Statement

Chairman's

Foreword

	7 2019
	FSA ANNUAL REPORT 2019
	MFSA AN

12/08/2019 20/09/2019 25/09/2019 01/10/2019	Technical Remarks about the MiFID II Phase 2 First Round of Testing MiFID II XML Schema Version 1.1.0 Go-Live Cybersecurity – Threat Mitigation Tied Agent Regime Enhancements
Prevention of	Market Abuse
09/04/2019 28/06/2019 05/07/2019 25/09/2019 08/10/2019	Market Abuse Regulation – Q&A Document Market Abuse Regulation – PDMR Notifications Market Abuse Regulation – List of Insiders Cybersecurity – Threat Mitigation Market Abuse Regulation – ESMA Consultation Paper
<u>SFTR</u>	
25/09/2019	Cybersecurity – Threat Mitigation
Short Selling F	Regulation
25/09/2019	Cybersecurity – Threat Mitigation
<u>UCITS</u>	
14/01/2019	Circular on Commission Delegated Regulations on safe-keeping duties of depositaries
30/05/2019	Circular to Licence Holders and Applicants for a Licence:
31/07/2019 19/09/2019	Submission of Applications ESMA Publishes Consultation Paper on Performance Fees in UCITS ESMA Publishes Guidelines on Liquidity Stress Testing in UCITS and AIFs
25/09/2019 17/10/2019	Cybersecurity – Threat Mitigation Circular on the Submission of Regulatory Reporting in relation to Collective Investment Schemes, Recognised Persons and Investment Services Licence Holders
06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls

3

Chairman's

Foreword

Chief

Executive's

Statement

How We Are

Structured

Trust and Fiduciaries

Our Sector-Specific

Priorities

5

What We

Regulate

Our Cross-Sector

Priorities

13/02/2019	Circular to Applicants who are required to complete a Personal Ouestionnaire
02/04/2019	Circular addressed to Companies authorised to act as a Trustee of Family Trusts in terms of Article 43B of the Trusts and Trustees Act
02/04/2019	Circular addressed to Trustees and other fiduciaries authorised in terms of Article 43 of the Trusts and Trustees Act
02/04/2019	Circular addressed to Companies and individuals authorised as Administrators of Private Foundations in terms of Article 43(12)(b) of the Trusts and Trustees Act
30/05/2019	Circular to Licence Holders and Applicants for a Licence: Submission of Applications
10/09/2019	Enhancements to the online portal for the Trusts Ultimate Beneficial Ownership Register (TUBOR)
25/09/2019	Cybersecurity – Threat Mitigation
21/10/2019	Thematic Review on the reporting of beneficial ownership of trusts in the Trusts Ultimate Beneficial Ownership Register (TUBOR)
06/11/2019	Supervision: Risks Identified, Weaknesses and Expected Controls

Financial

Statements

8

Statistical

Compendium

Appendices

1 Chairman's Foreword	2 Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	----------------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

APPEND	OIX 4 – Consultation Papers Issued in 2019	15/07/2019	Consultation on Amendments to the Pension Rules for Occupational Retirement Schemes issued under the Retirement
31/01/2019 04/02/2019 05/02/2019 05/02/2019 11/03/2019 27/03/2019 17/04/2019 17/04/2019	MFSA Fintech Strategy – Consultation Document Consultation on Amendments to Regulations Issued under the Retirement Pensions Act Consultation on the MFSA FinTech Strategy – Note regarding an Extension of Consultation Period MFSA Guidance on Cybersecurity Consultation Document Consultation on the MFSA Guidance on Cybersecurity – Note regarding an Extension of Consultation Period Consultation Document on Guidance for Credit Institutions, Payment Institutions and Electronic Money Institutions opening accounts for FinTechs Consultation on Insurance Rules on the Encouragement of Long- Term Shareholder Engagement Consultation on Pension Rules on Occupational Retirement Schemes on the Encouragement of Long-Term Shareholder Engagement Consultation on Investment Services Rules for Investment Services	15/07/2019 19/07/2019 22/07/2019 28/08/2019 02/09/2019 07/10/2019 15/10/2019 22/10/2019 24/10/2019 25/10/2019	
	Providers regarding Encouragement of Long-Term Shareholder Engagement	21/11/2019	Consultation Document – Raising the Bar for Company Service Providers – Note regarding an Extension of Consultation Period
13/05/2019	Consultation on the Implementation of National Product Intervention Measures in relation to Contracts for Difference		
13/05/2019	Consultation on the Implementation of National Product Intervention Measures in relation to Binary Options		
13/05/2019	Consultation on defining Material Related Party Transactions and Disclosure Requirements as required in terms of the Shareholders Rights Directive II		
04/07/2019	Consultation Document on Pillar 1 – Regulations		

APPENDIX 5 – Licensing in Numbers

Source of all Charts in this Appendix: Malta Financial Services Authority.

Banking

Table 1: Credit and Financial Institutions

	Total licences			
	at end 2017	at end 2018	at end 2019	
Credit Institutions	25	24	25	
Financial Institutions	48	49	52	
of which:				
authorised to provide				
payment services	35	38	41	
authorised to issue				
electronic money	14	15	15	

Insurance

Table 2: Insurance Undertakings

	Total licences			
	at end 2017	at end 2018	at end 2019	
Non-Life	46	51	55	
Life	8	8	8	
Composite	2	2	2	
Reinsurance	7	5	5	
TOTAL	63	66	70	
of which:				
Affiliated	8	7	7	
Protected Cell Companies (and cells)	14 (34 Cells)	16 (36 Cells)	15 (60 Cells)	
Insurers of Domestic Origin	8	8	8	

•
RT 2019
L REPORT
ANNUAI
MFSA,

Appendices

T 2 P •	<i>-</i>		\
Iania Kainciiranca	Special	PIIRNACA	VANICIAS
Table 3: Reinsurance	2DECIAI	I UIDUSE	veille3

Statement

	Total licences					
	at end 2017	at end 2018	at end 2019			
Reinsurance Special						
Purpose Vehicles	1	1	0			

Table 4: Insurance Intermediaries: Companies

	Total licences					
	at end 2017	at end 2018	at end 2019			
Enrolled Insurance Managers	11	11	11			
of which PCCs (and Cells)	3 (2 Cells)	3 (2 Cells)	3 (2 Cells)			
Enrolled Insurance Agents	16	16	19			
Enrolled Insurance Brokers	31	32	33			
of which PCCs (and Cells)	2 (3 Cells)	2 (3 Cells)	4 (10 Cells)			

Table 5: Insurance Intermediaries: Individuals⁸

	Total licences				
	at end 2017	at end 2018	at end 2019		
Registered Insurance Managers	20	23	26		
Registered Insurance Agents	32	25	31		
Registered Insurance Brokers	100	101	115		
Tied Insurance Intermediaries ⁹	474	435	409		

Pensions

Table 6: Authorisations and registrations in terms of Retirement Pensions Act

	Total registrations			
	at end 2017	at end 2018	at end 2019	
Retirement Schemes	50	55	54	
Retirement Funds	2	3	3	
Retirement Scheme Administrators	16	15	17	
Investment Managers (Registered)	5	6	6	
Investment Managers (Exempted)	6	6	6	
Back-Office Administrators (Recognised)	4	4	4	
Back-Office Administrators (Exempted)	4	4	4	
Custodian (Registered)	-	1	3	
Custodian (Exempted)	1	1	1	

⁸ Article 11 of the Insurance Intermediaries Act, 2006 provides that no person shall act as an insurance agent or insurance manager unless one or more of the company's directors are registered in the Agents Register and the Managers Register and the insurance intermediaries activities are carried on under the management of a registered person. As from 1 April 2007, the Authority started registering individual applicants who have been accepted for registration in the said Registers.
⁹ Includes both individuals and companies.

Securities

Table 7: **Investment Services**

	2018			2019		
Ne licenc		Surrendered licences	Total licences at end 2018	New licences	Surrendered licences	Total licences at end 2018 ¹⁰
Category 1a	2	4	11	1	4	10 ¹¹
Category 1b	4	1	9	1	1	84 ¹¹
Category 2	8	14	115	5	7	110 ¹²
Category 2 & 4a	1	-	6	0	0	6
Category 3	1	2	10	2	1	13 ¹²
Category 3 & 4a	-	-	3	0	0	3
Category 4a	-	-	1	1	0	2
Category 4b	-	1	1	0	0	1
Total	11	17	156	10	13	153

Table 8: Recognised Fund Administrators

		2018			2019	
	New recognitions	Surrendered recognitions at end 2018 recognitions		Surrendered recognitions	Total recognitions at end 2019	
Recognised Fund Administrators	0	2	24	0	4	20

¹⁰ Figures may not sum up due to conversion of licences. ¹¹ One licence was converted from Category 1b to Category 1a and another licence was converted from Category 2 to Category 1a. ¹² Two licences were converted from Category 2 to Category 3.

Table 9: Collective Investment Schemes

	2018				2019	
	New licences	Surrendered licences	Total licences at end 2018	New licences	Surrendered licences	Total licences at end 2019
AIFs	19	6	134	13	23	129 ¹³
of which ICs	5	1	9	4	3	1114
PIFs	33	62	401	27	65	358 ¹³
of which ICs	4	6	14	8	6	1514
Retail Non-UCITS	0	0	5	0	0	5
Recognised Private Schemes	0	0	7	0	0	7
UCITS	11	7	118	5	17	106
of which ICs	0	0	0	0	0	0
Total	63	75	665	45	105	605

Table 10: Notified Alternative Investment Funds (NAIFs)

		2018			2019	
	New Surrendered notifications New notifications notifications at end 2018 notifications			Surrendered notifications		
NAIFs	18	7	29	32	6	55
of which ICs	0	0	0	1	0	1

MFSA ANNUAL REPORT 2019

 $^{^{13}}$ Five PIF funds/sub-funds had their licence revised to AIF funds/-sub-funds. 14 One PIF fund/sub-fund established as an Incorporated Cell had its licence revised to AIF fund/sub-fund.

8

Statistical

Compendium

Appendices

Table 11: Recognised Incorporated Cell Companies				
	2018			

Statement

	2018			2019		
	New licences	Surrendered licences	Total licences at end 2018	New licences	Surrendered licences	Total licences at end 2019
Recognised Incorporated						
Cell Companies	0	0	6	0	2	4
Incorporated Cells	9	7	23	13	9	27

Trusts Services

Table 12: Authorised Trustees, Nominees and Trusts

	Total authorisations at				
	at end 2017	at end 2018	at end 2019		
Authorisations in terms of the Trusts and Trustees Act (Trustees/Fiduciary Service Providers/Administrators of	167	474	174		
Private Foundations) Nominees ¹⁵	167 11	171	174 10		
Trusts registered in terms of the Trust Act, 1988	62	61	61		

 $^{^{15}}$ The coming into force of the Trusts & Trustees Act in 2005 brought the issuing of licences for trusts and nominee services to an end. Accordingly, these licences continued to be phased out.

Company Services Providers

Statement

Table 13: Company Services Providers

		Total registrations				
	at end 2017	at end 2018	at end 2019			
Registrations in terms of the						
Company Services Providers Act	172	186	181			

Securitisation Vehicles

Table 14: **Notifications in terms of the Securitisation Act**

		Total notificatio	ns
	at end 2017	at end 2018	at end 2019
Notified Securitisation Vehicles	40	48	41
of which notified Securitisation Cell Companies (and Cells)	15 (26)	20 (42)	22 (53)

Virtual Financial Assets

Table 15: Virtual Financial Assets Agents

	Total registrations at end 2019
Virtual Financial Assets Agents	18

Appendices

Appendices

3 5 8 6 Chief How We Are What We Chairman's Our Cross-Sector Our Sector-Specific **Financial** Statistical Foreword Executive's Structured Regulate Priorities Priorities Statements Compendium Statement

APPENDIX 6 – Issued and Surrendered Licences 2019

LICENCES ISSUED

Financial Institutions

Licence issued to:

- Octet Europe Limited (20 February 2019)
- Finductive Limited (18 March 2019)
- CFD Team Limited (6 May 2019)
- PAYBYPAGO Limited (24 July 2019)

Investment Services

Category 1

Revision of Investment Services Licence issued to:

- ActivYT Investment Advisory Company Limited re-categorisation from Cat 1B to Cat 1A licence
- Category 1B licence issued to Mirabella Malta Advisers Limited
- Category 1A licence issued to Blevins Franks Wealth Management Limited

Revision of Investment Services Licence issued to:

 ActivYT Investment Advisory Company Limited to reflect the change in name to GWA Investments Limited

Category 2

Licence issued to:

- Global Shares Execution Services Limited
- Adventum International Limited
- Hanover Investors Management (Malta) Limited
- Sun Hill Investment Management (Malta) Limited
- Rigsave Capital Limited

Revision of Investment Services Licence issued to:

- Fexserv Investment Services Limited to include additional activities to its licence
- Agon Asset Management Limited to qualify as a full AIFM
- Michael Grech Financial Services Investment Limited to provide additional services
- Cevian Capital (Malta) Limited to provide its services in relation to additional instruments and additional categories of clients
- Multi Partners Financial Services Limited to provide additional services
- Alpha Value Management Limited to include additional activities to its licence
- SDP Capital Management (Malta) Limited to reflect the change in name to SDP Capital Management Limited
- Falcon Money Management Limited to include additional activities to its licence
- Timeless Asset Management Limited to reflect the change in name to Artemis Asset Management Limited
- SGGG Fexserv Fund Services (Malta) Limited to reflect the change in name to Fexserv Fund Services Limited
- Medina Asset Management Limited to include additional activities
- Cevian Capital (Malta) Limited to include additional activities
- Artemis Asset Management Limited to reflect the change in name to Agon Asset Management
- Mediterranea Capital Partners Limited Conversion of its Category 2 de minimis AIFM licence to a Category 2 Full AIFM licence

Category 3

Licence issued to:

- Akbank T.A.Ş. (Malta Branch)
- ADG Europe Limited

Revision of Investment Services Licence issued to:

- Nextmarkets Trading Limited to provide additional services
- Nextmarkets Trading Limited to include additional activities extension of Category 3 Investment Services Licence on 22 August 2019

1 Chairman's Foreword	2 Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	----------------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

Category 4

• Category 4A licence issued to European Depository Bank SA (Malta Branch)

Tied Agents

- Registration of Joseph Scicluna Investment Services Limited as Tied Agent of Jesmond Mizzi Financial Advisors Limited
- Registration of Greensill Capital Securities (Malta) Limited as Tied Agent of Mirabella Malta Advisers Limited
- · Registration of John Degiorgio as Tied Agent of Timberland Invest Limited
- Registration of Joseph Fenech as Tied Agent of Integra Private Wealth Limited

<u>Investment Services – Conversion of licences</u>

- Joseph Scicluna Investment Services Limited to reflect the revision of Category 2 Investment Services Licence to a Category 1A Investment Services Licence
- XNT Limited Reclassification from Category 2 to Category 3 Investment Services; Licence restricted to Dealing on Own Account on a matched principle basis
- Vitesse Capital Limited Revision of Category 2 Investment Services Licence to a Category 3 Investment Services Licence

Collective Investment Schemes

Professional Investor Funds targeting Qualifying Investors

Collective Investment Schemes licence issued to:

- Unimar Receivables Malta Fund SICAV plc
- Mortgage Accumulation Return Corporate Fund in respect of one additional sub-fund
- Astrada Financial SICAV plc in respect of three sub-funds
- Carma Capital Partners SICAV plc in respect of one additional sub-fund

- Vereeni SICAV plc in respect of one sub-fund
- L-Square Commodities IC SICAV plc in respect of one sub-fund
- Audentia Capital SICAV II in respect of one additional sub-fund
- Comino Umbrella Fund SICAV plc in respect of one additional sub-fund
- Liongate Emerging Markets Fund SICAV plc
- 5 Alpha Fund IC SICAV plc
- Liongate Emerging Markets Fund SICAV
- Strategica Funds SICAV plc in respect of one sub-fund
- NCC Funds SICAV plc in respect of one sub-fund
- Kintaro Capital SICAV plc in respect of one sub-fund
- Avenue Crypto IC SICAV plc
- Partners SICAV plc in respect of one sub-fund
- Verbier Fund Health & Beauty Brands IC SICAV plc
- REBFUND IC SICAV plc
- Iconic Funds SICAV plc in respect of one sub-fund
- Future Design Fund IC SICAV plc
- Taliti Funds SICAV plc in respect of one sub-fund
- PMG Special Funds SICAV plc in respect of one sub-fund
- Capaneo Investments SICAV plc in respect of one sub-fund
- Lucendro SICAV plc in respect of one sub-fund
- Patrimonium SICAV plc in respect of one sub-fund
- Meridon Funds SICAV plc in respect of one sub-fund
- Mansard Capital SICAV plc in respect of one sub-fund
- Audentia Capital SICAV II plc in respect of one sub-fund
- Pravda Capital SICAV plc in respect of one sub-fund

<u>Alternative Investment Funds</u>

Collective Investment Scheme licence issued to:

- AQA Credit Solutions Fund in respect of one sub-fund
- Al2 SICAV plc in respect of one sub-fund
- AKJ Digital Assets FoF IC SICAV plc
- TRW Phoenix SICAV plc in respect of one sub-fund
- Adventum QUARTUM Central Europe SICAV plc

1 Chairman's Foreword	2 Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	----------------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

- CEE Alternative Equity Investments Fund SICAV plc
- S3 Global Multi-Strategy Fund (Valletta) SICAV plc in respect of three subfunds
- AARO Distributed Ledger Technology Multifund IC SICAV plc
- Sun Hill Real Estate Funds SICAV plc
- S3 Global Multi-Strategy Fund (Valletta) SICAV plc in respect of one sub-fund
- Italo SICAV plc in respect of one sub-fund
- Heracles Investment Fund SICAV plc in respect of one sub-fund
- AUGE SICAV plc in respect of one sub-fund
- E2A Capital SICAV plc in respect of one sub-fund
- Hold SICAV plc in respect of one sub-fund
- EICO Funds SICAV plc in respect of one sub-fund
- AUGE SICAV plc in respect of one sub-fund
- Cloud 8 Capital SICAV plc in respect of one sub-fund

Notified Alternative Investment Funds targeting Professional and/or Qualifying Investors

In terms of Regulation 6 of the Investment Services Act (List of Notified AIFs) Regulations 2016:

- Global Series SICAV plc in respect of five additional sub-funds included in the List of Notified AIFs
- Purity SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Pangea SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Re-World SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- GC Nest SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- MDC Astrolabe SICAV plc in respect of an additional sub-fund included in the List of Notified AIFs
- Cosmos SICAV plc in respect of an additional sub-fund included in the List of Notified AIFs

- GC Nest SICAV plc in respect of an additional sub-fund included in the List of Notified AIFs
- Pangea SICAV plc in respect of an additional sub-fund included in the List of Notified AIFs
- MSC Astrolabe SICAV plc in respect of a change in name to one of its subfunds
- Multi Strategy SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Bergholt SICAV plc in respect of one additional sub-fund included in the List of Notified AIFs
- The PCM Global Core Fund SICAV IC plc included in the List of Notified AIFs
- Austrasia SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Special Private Equity Solutions SICAV Plc. in respect of one sub-fund included in the List of Notified AIFs
- FCS Global AIFs Malta SICAV plc in respect of two additional sub-funds included in the List of Notified AIFs
- Apeiron SICAV Limited in respect of two additional sub-funds included in the List of Notified AIFs
- Global Series SICAV plc in respect of a change in name to one of its sub-funds
- Audentia Capital NAIF SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Eneas Alternative Investments Europe 2 NAIF SICAV plc in respect of one subfund included in the List of Notified AIFs
- Key Investment Finance SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- FE Alternative SICAV plc in respect of one sub-fund included in the List of Notified AIFs
- Apeiron Feeder SICAV plc in respect of an additional sub-fund included in the List of Notified AIFs
- MDC Astrolabe SICAV Plc. in respect of an additional sub-fund included in the List of Notified AIFs
- Italico Future Invest SICAV plc in respect of a change in name to one of its sub-funds
- Arroba Capital SICAV plc in respect of one sub-fund included in the List of Notified AIFs

3 5 8 6 Chief How We Are What We Our Sector-Specific Statistical **Appendices** Chairman's Our Cross-Sector **Financial** Foreword Executive's Structured Regulate Priorities Priorities Statements Compendium Statement

UCITS

Collective Investment Scheme licence issued to:

- AQA UCITS Funds SICAV plc in respect of one additional sub-fund
- J&T SICAV plc
- Aria SICAV plc in respect of one sub-fund
- Merill SICAV plc in respect of one sub-fund
- FCS Global Funds SICAV plc in respect of one sub-fund

Collective Investment Schemes – Conversion of Licences

- Gala Investments Limited, in respect of the change in name to Safe Capital Investments Limited
- Heracles Investment Fund SICAV plc was converted from Professional Investor Fund to an Alternative Investment Fund
- Audentia Capital AIF SICAV plc to reflect the change in name of sub-fund from Audentia Market Neutral Superlative Returns Fund to Audentia World FX MasterFund
- Aquarium Funds SICAV plc to reflect the change in name of sub-fund from Aquarium Short Liquidity Fund to Accumulative Growth Fund
- Higher Ground SICAV plc to reflect the change in name of sub-fund from Core Wealth Fund to Higher Ground Core Wealth Fund
- Heritage SICAV plc to reflect the change in name of sub-fund from HC Global Opportunity Fund to Trinity Place Fund
- Sunshine Fund (Malta) SICAV Limited to reflect the change in name of subfund from The Caminit Fund to The Multi-Asset Fund
- S3 Global Multi-Strategy Fund (Malta) SICAV plc to reflect the conversion of the Scheme from a Professional Investment Fund to an Alternative Investment Fund
- AJD Fund IC SICAV plc in respect of the AJD Fund IC SICAV plc to reflect the conversion of the Scheme and its sub-fund from Professional Investor Fund to Alternative Investor Fund
- Sun Hill Real Estate Funds SICAV plc toreflect the change in name of sub-fund from Budapest Residential Real Estate Fund to Budapest Apartments Real

Estate Fund

- MFP SICAV plc to reflect change in name of sub-fund from Vega Delta Fund to Raphael's Ethical Choice Fund
- Mediterrania Capital II SICAV plc converted from a Professional Investor Fund to an Alternative Investment Fund

Recognised Private Collective Investment Scheme

Recognition Certificate issued to:

Scheme Investments Aleph SICAV plc

Trustees and Fiduciaries

Authorisation issued to:

- RichmondGate PTC Limited to act as a Trustee of a family trust in terms of Article 43B of the Trusts and Trustees Act
- Family Management Limited to act as a Trustee of a family trust in terms of Article 43B of the Trusts and Trustees Act
- Cefai Family Office Limited to act as a Trustee of a family trust in terms of Article 43B of the Trusts and Trustees Act
- Bastion Services Limited to act as a Trustee of a family trust in terms of Article 43B of the Trusts and Trustees Act

Company Service Providers

Registration Certificate issued to:

- Afilexion Alliance Company Limited
- CapServices Limited
- Taxea Limited
- TEB Services Malta Limited

Extension of the Registration Certificate issued to:

• AML Atlantis Management Limited to include acting as a secretary of a company and arranging for another person to act as a secretary of a company

1 Chairman's Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	-----------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

- RiskCap International Limited to include acting as a director or secretary of a company
- RMB Management Limited to include formation of companies or other legal entities and to provide a registered office, a business correspondence or administrative address and other related services for a company, a partnership or any other legal entity
- Robus Risk Services (Malta) Limited to include acting as a director or secretary of a company

Insurance

<u>Insurance Undertakings</u>

Licence issued to:

- Accelerant Insurance Europe Limited
- Aviation Insurance Limited
- Collinson Insurance Europe Limited
- First Europe Title Insurance Company Limited
- Insurem Insurance Limited (FINARE)
- Premium Insurance Company Limited
- R&Q Alpha Company plc
- R&Q Beta Company plc

Extension of authorisation issued to:

- Bastion Insurance Company Limited
- Elmo Insurance Limited
- SN SecureCorp Insurance Malta Limited
- CRH Group Insurance Services Europe Limited

Protected cells

Approval for:

- Highdome PCC Limited VSP Cell
- Munich Re PCC Limited Pension Cell
- Oney Insurance PCC Affinity Cell
- White Rock Insurance (Europe) PCC Limited Cell A2

- White Rock Insurance (Europe) PCC Limited Cell A22
- White Rock Insurance (Europe) PCC Limited Cell A28
- White Rock Insurance (Europe) PCC Limited Cell A42
- White Rock Insurance (Europe) PCC Limited Cell A43
- White Rock Insurance (Europe) PCC Limited Cell A45
- White Rock Insurance (Europe) PCC Limited Cell A49
- White Rock Insurance (Europe) PCC Limited Cell A50
 William Rock Insurance (Europe) PCC Limited Cell A50
- White Rock Insurance Europe PCC Limited Cell A29
- White Rock Insurance Europe PCC Limited Cell A44

Extension of authorisation to cells:

- L'Amie Cell, cell of Atlas Insurance PCC Limited
- UIB Cell, cell of Advent Insurance PCC Limited

Insurance brokers

Enrolment in the Brokers List:

• Blevins Franks Wealth Management Limited

Cell of Insurance Brokers

- Ahial Cell, Cell of Assikura Insurance Brokers PCC Limited
- Coverwise Cell, Cell of Artex Insurance Brokers Malta PCC Limited
- Capurro Insurance Europe Cell, Cell of Jatco Insurance Brokers PCC Limited
- EC3 Brokers Europe Cell, Cell of Jatco Insurance Brokers PCC Limited
- Lebron Cell, Cell of Artex Insurance Brokers Malta PCC Limited
- Sovereign Insurance Services (Europe) Limited, Cell of Jatco Insurance Brokers PCC Limited
- Sure Insurance Europe Cell, Cell of Jatco Insurance Brokers PCC Limited

<u>Insurance Agents</u>

Enrolment in the Agents List:

- Collinson Insurance Solutions Europe Limited
- Square Trade Europe Limited

3 5 8 6 Chief How We Are What We Our Cross-Sector Our Sector-Specific Statistical **Appendices** Chairman's **Financial** Foreword Executive's Structured Regulate Priorities Priorities Statements Compendium Statement

Insurance Intermediaries

Conversion of licence

- CLS Risk Solutions Limited
- Assikura Insurance Brokers PCC Limited

Pensions

New Registrations

Retirement Scheme Administrators

- Agua Trust Services Limited
- Optimus Fiduciaries (Malta) Limited

Occupational Retirement Schemes

- Sovereign Occupational Pension Scheme
- Trireme Occupational Retirement Scheme

Registered Custodians

- Dolfin Asset Services Limited
- Trireme Services Limited

VFA Agents

Licence issued to:

- · Alleybe Fintech Malta Limited
- BDO Fintech Advisory Limited
- Blockchain Advisory Limited
- Caledo VFA Advisory Limited
- CAMA Limited
- CC VFA Advisory Limited
- CS Fintech Limited
- DWP VFA Agent Limited
- Equity Tech Solutions Limited
- Erremme Business Advisors Limited

- Finovative Limited
- Grant Thornton Limited
- Lexnode Limited
- · Mamo TCV (VFA) Limited
- MMC Consultancy Limited
- VFAE Limited
- WH Innovation Limited
- · Zerafa.io Limited

LICENCES SURRENDERED

Investment Services

Category 1

Surrender of:

- Category 1A licence issued to Joseph Scicluna Investment Services Limited
- Category 1A licence issued to ELP Finance Limited
- Category 1B licence issued to FIIG International Limited
- Category 1A licence issued to Gasan Mamo Financial Services Limited
- Category 1A licence issued to Mercieca Financial Investment Services Limited

Category 2

Surrender of licence issued to:

- Private Value Asset Management Limited
- Blue Planet Investment Management Limited
- Constat Asset Management Limited
- Brokerclub Limited
- · Hawkview Asset Management Limited
- Castille Capital Management Limited
- Markham Rae (Malta) Management Company Limited

1 Chairman's Chief How We Are Structured Regulate	5 Our Cross-Sector Priorities 6 Our Sector-Specific Priorities	7 Financial Statistical Compendium	9 Appendices
---------------------------------------------------	-----------------------------------------------------------------	------------------------------------	-----------------

Category 3

Surrender of licence issued to:

• TMS Brokers Europe Limited

Recognised Fund Administrators

Surrender of licence issued to:

- Equinoxe AIS Malta Limited
- Castlegate Fund Services Limited

Surrender of Recognition Certificate to:

- Somerset Management Malta Limited
- Folio-ITL Fund Services Limited
- · Abacus Financial Services (Malta) Limited

Collective Investment Schemes

Professional Investor Funds

Surrender of licence issued to:

- GSC SICAV plc and its sub-fund GSC Global Fund
- SiliconIsles SICAV plc and its sub-fund SiliconIsles I Private Equity Fund
- 5 Alpha Fund IC SICAV plc
- Catey Investments (SICAV) plc and its sub-fund Catey Innovation Fund
- Zodial Opportunities SICAV plc in respect of one sub-fund, Zodial Event Driven Sub-Fund
- Meridon Funds SICAV plc in respect of one sub-fund, IRQ T.E. Development I Fund
- Olma Next Fund IC SICAV plc
- Falcon Funds SICAV plc
- Odyssey SICAV plc in respect of one sub-fund, Odyssey Green Planet Fund
- Fraternitas SICAV plc and its sub-fund Fraternitas Ethical Fund
- EOS SICAV plc in respect of one sub-fund, Global Macro Fund

- HFH SICAV plc in respect of one sub-fund, Kalyan Investment Fund
- Resco Fund SICAV plc in respect of one sub-fund, Resco Sapphire Fund
- Top Selection Fund SICAV plc in respect of one sub-fund, Commodity Top Selection Fund plc
- AMA UCITS SICAV plc in respect of one sub-fund, BCM Total Return Bond Fund
- SAF SICAV plc in respect of two sub-funds, Fontana Fund and Marsa LATAM Fund
- ZSB Systematic Equity Long-Short Fund IC SICAV plc
- The Nascent Fund SICAV plc in respect of one sub-fund, The Symphony Fund
- PMG Partners SICAV plc in respect of one sub-fund, PP Charisma Support Fund CHF
- The Nascent Fund SICAV plc in respect of one sub-fund, Golden Horn Fund
- PerSYSTEMcy SICAV plc in respect of one sub-fund, Persystemcy Fund
- Avenue Fund IC SICAV plc
- Knights of Malta Investment Funds IC SICAV plc in respect of one sub-fund, Miton Optimal Core Commodity Fund
- Polaris Finance SICAV plc in respect of one sub-fund, Harvest Alpha Capital Fund
- Patrimonium SICAV plc in respect of one sub-fund, Global Efficient Portfolio Fund
- Mercurios SICAV plc and its sub-fund Mercurios Commodity Fund
- Odyssey SICAV plc in respect of one sub-fund, Odyssey Green Planet Fund
- Focus Funds SICAV plc
- Cygnus SICAV plc and its sub-fund Europa Event Driven SUB-Fund
- Pilatus SICAV plc in respect of one sub-fund, Long Short Flex Strategy Sub-Fund
- AQA UCITS Funds SICAV plc in respect of one sub-fund, AQA Credit Strategies Fund
- Art & Value SICAV plc in respect of one sub-fund, Art & Value Fund
- Aros Paradigm Fund SICAV plc
- Audentia Capital SICAV II plc in respect of one sub-fund, Commodity Feeder Fund
- Audentia Capital SICAV plc in respect of one sub-fund, Agilis and Retis Fund

- PMG Special Funds SICAV plc in respect of one sub-fund, PSF Global Trends Fund
- Stoik Fund IC SICAV plc
- Peak Momentum Funds SICAV plc in respect of two sub-funds, Peak Momentum Diversified Fund and the Peak Momentum Currency & Financial Fund
- Pilatus SICAV plc in respect of one sub-fund, Oplon Art Sub-Fund
- LL Global Fund Series SICAV plc in respect of one sub-fund, Apollo Global Capital Fund
- Starstruck Marine Capital IC SICAV plc
- Prime Metal Opportunity SICAV plc in respect of one sub-fund, Strategic Metal Value Fund
- Hyperion Energy Investment Fund SICAV plc in respect of two sub-funds
- Chevaux 4 SICAV plc in respect of one sub-fund, Estate High Return Fund
- Villers Investment Funds SICAV plc in respect of two sub-funds, 27four Moderate Fund Plus GBP Fund of Funds and 27four Moderate Fund Plus USD Fund of Funds
- Hold SICAV plc in respect of one sub-fund, Concorde Contraste Fund
- Falcon Investment SICAV plc in respect of one sub-fund, GYR Fund
- · Lane Bridge SICAV plc in respect of one sub-fund, EVO Fund
- Himalaya SICAV plc in respect of one sub-fund, Margarita Sub-Fund
- Bryan Garnier Umbrella Fund SICAV plc in respect of one sub-fund, BGAM Madison US Equity L/S Fund
- Lane Bridge UCITS SICAV plc in respect of one sub-fund, Performa SQ Active Strategies Fund
- Royal Rainbow Fund SICAV plc in respect of one sub-fund, Fashion Properties Fund
- Bodi Invest Fund SICAV plc in respect of one sub-fund, Bodi Invest Opportunities Fund
- Woodman Funds SICAV plc in respect of one sub-fund, Woodman EICG Fund
- Global Garden SICAV plc in respect of one sub-fund, Macro Fund
- Global Garden SICAV plc in respect of one sub-fund, Evergreen Fund
- Audentia Capital SICAV plc in respect of one sub-fund, Sol Oriens Fund
- Open Door SICAV plc in respect of one sub-fund, Open Door Greater China Fund

- Amstel Global Umbrella Fund SICAV plc in respect of one sub-fund, Sol Oriens Fund
- HFH SICAV plc in respect of one sub-fund, Runestone Capital U.S. Fund
- FMG Funds SICAV plc in respect of one sub-fund, FMG (EU) Combo Fund
- AUM Global Platform SICAV plc in respect of one remaining sub-fund, Streaming Technology Fund
- Pilatus SICAV plc in respect of one sub-fund, Best Performer Fund
- Together Fund IC SICAV plc
- Eiger SICAV plc in respect of one sub-fund, Flexible Fund
- Taliti Funds SICAV plc in respect of one sub-fund, Jasper Fund
- PerSYSTEMcy SICAV plc in respect of one sub-fund, Lasius Fund
- EF Global SICAV plc in respect of one sub-fund, Alternative Option Fund
- The Macro Fund SICAV plc in respect of two sub-funds, Reitway Global Property Portfolio and Alpha Global Stable Fund
- Meridon Funds SICAV plc in respect of one sub-fund, Alternative Meridon Czech Balanced Fund
- Southern Cross SICAV plc in respect of one sub-fund, Avialease Fund
- Northern Cross SICAV plc in respect of one sub-fund Value Googler Fund
- Eiger SICAV plc in respect of four sub-funds, Macro Integrated Techniques Fund, Global Balanced Allocation Fund, Prestige Fund and Multistrategy Fund
- Strategica Funds SICAV plc in respect of one sub-fund, PMP Luxury Fund
- World Dynamic Fund SICAV plc in respect of two sub-funds, Dynamic Exclusiva Fund and Dynamic Wealth Resource Fund
- Highland SICAV plc in respect of two sub-funds, Absolute Income Fund and Alpha Index Fund
- Pilatus SICAV plc in respect of four sub-funds, Karat Gold Sub-Fund, Free Value SubFund, Alternative Balanced Allocation Sub-Fund and Global Performance Distribution Sub-Fund
- Primo Forex Fund SICAV plc
- Narratus Capital IC SICAV plc
- Aurora SICAV plc and its sub-fund, Absolute Fund of Funds
- Himalaya SICAV plc in respect of one sub-fund, Delta Index Sub-Fund
- Bastion Wealth Strategies SICAV plc in respect of one sub-fund, Libero Absolute Return Fund

Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	7 Financial Statements	8 Statistical Compendium	9 Appendices
----------	-----------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	------------------------------	--------------------------------	-----------------

- Cerro Torre SICAV plc in respect of one sub-fund, World Alternative Investments Sub-Fund
- Velocity Classic Auto Fund SICAV plc in respect of one sub-fund, the Velocity Classic Auto Fund.
- TM Funds SICAV plc in respect of two sub-funds, the TM Global Equity Fund and TM Innovation Fund.
- Kite SICAV plc and its sub-fund, Flexible Plan SubFund
- Surrender of Licence by Prestige SICAV plc in respect of two sub-funds, Prime Equity Opportunity Fund and Income Option Advantage Fund

Cancellation of licence issued to:

 Signature Opportunities Fund SICAV plc in respect of one sub-fund, Eden Bock Fund

Incorporated Cells

Surrender of:

 Recognised Incorporated Cell Companies Certificate by Coprolin Fund Services RICC Limited

Company Service Providers

Cancellation of registration issued to:

- Integra Corporate Services Limited
- Osiris Corporate Services Limited
- JMKK Services Limited
- MGI Finconsult Limited
- ST Corporate and Advisory Services Limited
- Directa Management Limited
- Active Services (Malta) Limited
- Integra Private Wealth Limited

Insurance

- Surrender of Licence by Bray Insurance Company Limited in respect of the authorisation, issued to the company to carry on business of insurance in terms of the Insurance Business Act (Cap. 403 of the Laws of Malta)
- Surrender of Licence by Caversham Insurance (Malta) Limited in terms of the Insurance Business Act (Cap. 403 of the Laws of Malta)
- Surrender of the Authorisation by Exchange RE SCC Limited, issued to the Company to carry on the business of a reinsurance special purpose vehicle in terms of the Insurance Business Act (Cap. 403 of the Laws of Malta)
- Surrender of Authorisation by Arnold Clark Insurance (Malta) Limited, issued to the Company to carry on general business of insurance and reinsurance in terms of the Insurance Business Act (Cap. 403 of the Laws of Malta)
- Surrender of Authorisation by Genghis Insurance PCC Limited, issued to the Company to carry on general business of insurance and reinsurance in terms of the Insurance Business Act (Cap. 403 of the Laws of Malta)
- Surrender of Licence by Keystone Insurance Brokers Limited, issued to the Company to act as an insurance broker under Article 13 of the Insurance Distribution Act (Cap. 487)
- Surrender of Licence by Standard Re (Malta) Limited to carry on general business of reinsurance in terms of the Insurance Business Act (Cap. 403 of the Laws of Malta)

Trading Venues

European Wholesale Securities Market Limited requested the Malta Financial Services Authority to accept the surrender of its licence as a regulated market.

3 5 Chief How We Are What We Chairman's Our Cross-Sector Our Sector-Specific **Financial** Statistical **Appendices** Foreword Executive's Structured Regulate Priorities Priorities Statements Compendium Statement

APPENDIX 7 – Administrative Measures and Penalties

During 2019, the Authority imposed a number of administrative measures including penalties and directives on licensed entities for various breaches of financial services legislation. These included the following cases:

Portmann Capital Management Limited

On 23 December 2019, the MFSA revised the Directive of the 22 August 2018 issued to Portmann Capital Management Limited, a company holding a Category 2 investment services licence, whereby it was directed, with immediate effect, to:

- (a) cease the on-boarding of new clients; and
- (b) cease any outgoing transactions from all clients' accounts held by Portmann. This restriction shall also apply to intra client accounts.

The MFSA has taken this decision in terms of the powers granted to it under Article 6(2)(a) and Article 15 of the Investment Services Act.

On 20 September 2018, Portmann Capital Management Limited had submitted an appeal before the Financial Services Tribunal against the MFSA's decision of 22 August 2018. The appeal is still on-going.

On 23 December 2019 the MFSA decided that whilst maintaining both aforementioned restrictions in place, it directed Portmann to address and implement remediation measures in view of serious internal control and governance weaknesses.

Portmann has been granted a maximum period of one (1) year to implement all these remediation measures.

The Authority has therefore decided that the above restrictions shall be maintained in full force until the afore-mentioned remediation measures are implemented, in part or in full, by the Company to the satisfaction of the Authority, at which point in time the Authority will consider the variation or withdrawal thereof. Should the Company fail to implement such remediation measures within the stipulated timeframe, the Authority will consider what other regulatory action may be warranted in the circumstances.

This Directive was not appealed before the Financial Services Tribunal within thirty (30) days from the date of notification.

Mr John Mifsud

On 22 November 2019, the Malta Financial Services Authority reprimanded Mr John Mifsud for breach of Article 33(1) of the Insurance Distribution Act (Cap. 487). The MFSA has concluded that Mr Mifsud carried out tied insurance intermediary activities for classes of business for which he was not authorised.

Mr Adrian Pace

On 22 November 2019, the Malta Financial Services Authority decided to impose an administrative penalty of eight thousand Euro (€8,000) on Mr Adrian Pace for breach of Article 33(1) of the Insurance Distribution Act (Cap. 487). The MFSA has concluded that Mr Pace carried out tied insurance intermediary activities for classes of business for which he was not authorised.

E&S Consultancy Limited

On 18 November 2019, the Malta Financial Services Authority has taken the following regulatory action against E&S Consultancy Limited:

In terms of Article 6(1)(a)(b) and (e) of the Company Service Providers Act (Cap. 529 of the Laws of Malta), the MFSA has decided to cancel the Company's registration granted to it under Article 5 of the Company Service Providers Act, for breaches of

Appendices

1 Chairman's Foreword	Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium
------------------------------------	-----------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------

Articles 5(1)(a), 5(7) and 6(1)(a) of the Company Service Providers Act, and Rules 5, 13.04(e), 13.04(f), 16.06, 17.03 and 17.07 of the Rules for Company Services Providers;

In terms of Article 6(3) of the Company Service Providers Act, a Company whose registration has been cancelled shall, within sixty days from the date of cancellation of registration, ensure that the services it has been providing to companies or other legal persons in terms of its registration are transferred to another person who is duly registered in terms of this Act;

Further to the above obligation set out in the law and in terms of Article 11(1) of the Company Service Providers Act, the Company is directed to provide, from the date of the cancellation of the registration, bi-weekly updates to the Authority with respect to the transfer of business which is to be carried out in terms of Article 6(3) of the CSP Act.

In terms of Article 21(17) of the Malta Financial Services Authority Act, the MFSA's decision to cancel the Company's registration shall not become operative until the expiration of the period within which an appeal lies under Article 21 of the Malta Financial Services Authority Act and, if an appeal is made within such period, the said decision shall become operative on the date of the decision of the Financial Services Tribunal dismissing the appeal or the date on which the appeal is abandoned.

On 17 December 2019, E&S Consultancy Limited filed an appeal before the Financial Services Tribunal against the MFSA's decision of 18th November 2019.

Melita International Retirement Scheme Trust

On 17 May 2019, the Malta Financial Services Authority decided to impose an administrative penalty of one thousand Euro (€1,000) on Melita International Retirement Scheme Trust. The administrative penalty was imposed for breach of Pension Rule B 2.3.9 Scheme Records & Reports of the Pension Rules for Personal Retirement Schemes for failure to submit the annual audited report of the scheme within the regulatory deadline.

Money+Card Payment Institution Ltd

On 15 May 2019, the MFSA has decided to restrict the licence of Money+Card Payment Institution Ltd, in terms of Article 6(4) (c) and (d) of the Financial Institutions Act. as follows:

The Institution and all its officials or any connected persons or related persons thereto, whether direct or indirect, henceforth and until further notice, are to refrain, cease and desist, with immediate effect, from undertaking any activity for which they have been licensed in terms of the Financial Institutions Act. The Institution shall obtain the Authority's prior written approval before effecting any other transactions related to the payment of salaries and essential services.

This restriction is immediately applicable and shall remain operative until the Authority directs otherwise, including if the Institution, for whatever reason, ceases to hold a licence.

Reference is made to the Malta Financial Services Authority's Media Release concerning Money+Card Payment Institution Ltd dated 15 May 2019, whereby it was notified that the Authority restricted the licence of the Institution, in terms of Article 6(4) (c) and (d) of the Financial Institutions Act.

The restriction imposed was based on the following grounds:

- (i) the Institution no longer possesses sufficient own funds to cover the minimum required by law; and
- (ii) the Institution, due to the deficiencies at management and Board level, no longer meets its governance requirements in terms of Article 5(1)(d) of the Financial Institutions Act.

Further to the above, on 10 June 2019, the Authority notified the Institution that after due consideration, given that the serious circumstances of the Institution subsisted, the following regulatory action was taken:

1 Chairman's Foreword	2 Chief Executive's Statement	How We Are Structured	4 What We Regulate	5 Our Cross-Sector Priorities	6 Our Sector-Specific Priorities	Financial Statements	8 Statistical Compendium	9 Appendices
-----------------------------	----------------------------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------------	----------------------	--------------------------------	-----------------

- (i) require the institution to wind up its business in accordance with the Authority's power in terms of Article 17(1)(e) of the Act;
- (ii) direct the institution to take all the necessary steps to pass an extraordinary resolution for the dissolution and consequential members' voluntary winding up of the Institution in terms of Article 16(2)(b) of the Malta Financial Services Authority Act, including the appointment of the liquidator to be chosen from a list of persons provided by the Authority.

Upon appointment of Dr Louis Cassar Pullicino as the liquidator, the Authority has on 9 August 2019:

- (i) removed the restrictions imposed on the institution in terms of Article 6(5) of the Act insofar as this is required for the liquidator to perform the duties necessary for the winding-up of the business; and
- (ii) withdrawn the licence issued to the Institution in terms of Article 6(1) of the Act.

Signature Opportunities Fund SICAV plc

On 6 May 2019, the Authority cancelled, on regulatory grounds, the Collective Investment Scheme Licence of Signature Opportunities Fund SICAV plc, including the Licence granted to its only Sub-Fund, namely Eden Rock Fund, with immediate effect

In addition to the Scheme's failure to satisfactorily address a number of postlicensing conditions which needed to be addressed prior to the commencement of any business, the Scheme was found to be in breach of the following Article of the Investment Services Act (ISA) and Standard Licence Conditions (SLC) of Part BIII of the Investment Services Rules for Professional Investor Funds (the Rules):

- (i) Article 13(1) of ISA Failure to co-operate with the MFSA and to furnish information and documents to MFSA as required;
- (ii) SLC 1.64 of Part BIII of the Rules Failure to submit the Audited Financial Statements of the Scheme;

- (iii) SLC 1.5 of Part BIII of the Rules Failure to appoint an Investment Manager;
- (iv) SLCs 1.22 and 1.28 of Part BIII of the Rules Failure to appoint a Compliance Officer and a Money Laundering Reporting Officer (MLRO); and
- (v) SLC 1.65 of Part BIII of the PIE Rules Failure to settle Supervisory Fees.

The Authority has taken this decision in terms of the powers under Article 7(3)(b) of the Investment Services Act.

Mare Nostrum Melita Limited

On 25 April 2019, the Authority has taken the following regulatory action against Mare Nostrum Melita Limited:

- (i) In terms of Article 46(b) of the Trusts and Trustees Act, the MFSA has decided to cancel the Company's authorisation, granted to it under Article 43 of the Trusts and Trustees Act (Cap. 331 of the Laws of Malta), for breaches of Article 43(13)(i)(c), 43(13)(i)(f) and 43(14) of the Trusts and Trustees Act, paragraphs 5.0, 6.0, 9.4, 9.6 and 11 of the Code of Conduct for Trustees and Regulation 4(1) of the Trusts and Trustees Act (Fees) Regulations (L.N. 356 of 2008, S.L. 331.01); and
- (ii) In terms of Article 51(7) of the Trusts and Trustees Act, the MFSA has decided to impose on the Company an administrative penalty amounting to eight thousand Euros (€8,000), for the infringements of the above mentioned Articles of the Trusts and Trustees Act, Code of Conduct and Trusts and Trustees Act (Fees) Regulations.

Bourse Malta Overseas Pension Scheme and The Bourse Retirement Scheme (Malta)

On 8 April 2019, the Authority decided to impose an administrative penalty of two thousand Euro (€2,000) on the following two Schemes administered by Bourse Pension Administrators (Malta) Ltd:

How We Are Structured 4 What We Regulate 5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

/
Financial
Statements

8 Statistical Compendium

9 Appendices

Bourse Malta Overseas Pension Scheme and The Bourse Retirement Scheme (Malta). The administrative penalty was imposed for breach of Pension Rule B 2.3.9 Scheme Records & Reports of the Pension Rules for Personal Retirement Schemes for failure to submit the annual audited reports of the Schemes within the regulatory deadline.

Doyen Sports Investments Limited

On 7 March 2019, the Authority decided to impose an administrative penalty of twenty three thousand Euros (€23,000) on Doyen Sports Investments Limited in terms of Article 23(1) of the Financial Institutions Act Cap. 376 (FIA) and the Fines and Penalties for Offences Regulations (S.L. 376.02) for having breached Article 3(1) of the FIA.

The MFSA concluded that Doyen carried out lending activities as set out in paragraph 1 of the First Schedule of the FIA, without having the necessary licence. Consequently, the Authority considers the Company to have acted in breach of Article 3(1) of the FIA.

The Company did not appeal the decision of the Authority before the Financial Services Tribunal within thirty (30) days from the date of notification of the decision.

ITC Personal Retirement Scheme, ITC Occupational Retirement Scheme, Synergy International Pension Plan, Boal & Co Malta Pension, Prosperity QROPS Malta & Infinity International Pension Plan

On 25 February 2019, the Authority decided to impose an administrative penalty of twelve thousand Euro (€12,000) on the following six schemes administered by ITC International Pensions Limited: ITC Personal Retirement Scheme, ITC Occupational Retirement Scheme, Synergy International Pension Plan, Boal & Co Malta Pension, Prosperity QROPS Malta and Infinity International Pension Plan. The administrative penalty was imposed for breach of Pension Rule B 2.3.9 Scheme Records & Reports of the Pension Rules for Personal Retirement Schemes and for Occupational Retirement Schemes for failure to submit the annual audited reports of the schemes within the regulatory deadline.

On 25 March 2019, ITC International Pensions Limited submitted an appeal before the Financial Services Tribunal against the MFSA's decision of 25 February 2019.

APPENDIX 8 - Memoranda of Understanding (MoU) in force

Bilateral MoUs with Foreign Regulators

_	4 * 4	
-n	TITV	
- 11	i ci c y	

Australian Prudential Regulation Authority

Austrian Financial Market Authority

Belgian Banking and Finance Insurance Commission

Bermuda Monetary Authority

Cayman Islands Monetary Authority

China Banking Regulatory Commission

China Securities Regulatory Commission

Cyprus Central Bank

German Federal Financial Supervisory Authority

Gibraltar Financial Services Commission

Guernsey Financial Services Commission

Isle of Man Financial Services Commission

Isle of Man Insurance and Pensions Authority

Jersey Financial Services Commission

Mauritius Financial Services Commission

Netherlands Central Bank

Portugal Central Bank

Scope of Agreement

Banking and Insurance

Credit Institutions

Banking

Insurance, Credit Institutions and Trusts

Credit Institutions, Insurance, Securities and Trusts

Banking

Securities

Credit Institutions

Banking, Securities and Insurance (primarily Banking)

Banking, Securities and Insurance

Banking, Investment Services, Insurance and Fiduciary Services

Securities and Banking

Mutual Assistance and Exchange of Information

Mutual Assistance and Exchange of Information

Securities, Insurance and Pensions

Banking

Credit Institutions

3 8 5 6 Chairman's Chief How We Are What We Our Cross-Sector Our Sector-Specific Financial Statistical **Appendices** Foreword Structured Regulate Statements Compendium Executive's Priorities Priorities Statement

Information in the field of AML/CFT Compliance Supervision

Mutual Assistance and Exchange of Information

and National Interest Act (NIA)

Formalise Cooperation and Exchange of Information; and the allocation of responsibilities in ensuring compliance by subject persons with their obligations under the Prevention of Money Laundering Act (PMLA)

Entity	Scope of Agreement
Portugal Securities Market Commission	Securities
Qatar Financial Centre Regulatory Authority	Banking, Financial and Insurance related business
Slovakia National Bank	Banking, Insurance and Securities
South Africa Financial Services Board	Securities, Insurance and Pension Funds
Turkey Banking Regulation and Supervision Agency	Banking
Turkey Capital Markets Board	Securities
UAE Abu Dhabi Global Market Financial Services Regulatory Authority	Banking, Securities and Insurance
UAE Dubai Financial Services Authority	Securities, Credit Institutions, Insurance and Trusts
USA Nebraska Department of Insurance	Insurance
UK Financial Conduct Authority	Banking, Insurance and Investment Services
UK Financial Conduct Authority	Securities
Ukraine National Securities and Stock Markets Commission	Securities and Markets
Vatican Financial Information Authority	Financial Institutions
Vietnam National Financial Supervisory Commission	Banking, Securities and Insurance
Bilateral MoUs with Local Authorities	
Central Bank of Malta	Payment and Securities Settlements Systems; Exchange of Information in the Fields of Financial Services; Joint Financial Stability Board
	Cooperation; Rendering of Mutual Assistance and Exchange o

Financial Intelligence Analysis Unit (FIAU)

MGA, Sanctions Monitoring Board, FIAU, MFSA

Office of Fair Competition

MFSA ANNUAL REPORT 2019

3 How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

6 Our Sector-Specific Priorities

Financial Statements 8 Statistical Compendium

Multilateral MoUs and Protocols

European Insurance and Occupational Pensions Authority (EIOPA)	Insurance and Occupational Pensions
European Securities and Markets Authority (ESMA)	Securities
Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU	Cross-Border Financial Stability
International Organization of Securities Commissions (IOSCO)	Securities, Administrative arrangement for the transfer of personal data with non-EEA Authorities
Ministry of Finance, the Economy and Investment and Central Bank of Malta	Co-operation in the management of financial crisis situations
Bank of England and FCA	Establish a formal basis for cooperation between the Signatory Authorities, including the Exchange of Supervisory Information and Supervisory Assistance
EEA Authorities, Bank of England and Financial Conduct Authority	Supervisory Cooperation and Exchange of Information (Insurance)
International Association of Insurance Supervisors (IAIS)	Exchange of Information in Insurance Regulatory and Supervisory matters
UK Pensions Regulator	Establish a formal basis for cooperation between the Signatory Authorities, including the Exchange of Supervisory Information and Supervisory Assistance

Agreements by means of Letters with Foreign Regulators

Commissione Nazionale per le Società e la Borsa (CONSOB)	Securities
Swiss Financial Market Supervisory Authority (FINMA)	Banking and Securities

1 Chairman's Chief Executive's Statement

How We Are Structured

What We Regulate

5 Our Cross-Sector Priorities

Our Sector-Specific Priorities

/ Financial Statements 8 Statistical Compendium

9 Appendices

APPENDIX 9 - Litigation in connection with MFSA's exercise of its Regulatory and Supervisory Functions

Pending appeals before the Financial Services tribunal as at 31 December 2019

- 1. Christopher J. Pace v MFSA (Case Ref: FST 03/09)
- 2. Nicholas Portelli v MFSA (Case Ref: FST 04/09)
- 3. James Blake v MFSA (Case Ref: FST 05/09)
- 4. European Insurance Group Limited v MFSA (Case Ref: FST 01/10)
- 5. All Invest Company Limited v MFSA (Case Ref: FST 01/13)
- 6. All Invest Company Limited and Wallace Falzon v MFSA (Case Ref: FST 02/13)
- 7. Hermione Bugeja v MFSA (Case Ref: FST 01/14)
- 8. Novium AG v MFSA (Case Ref: FST 02/15)
- 9. Alan Kentish v MFSA (Case Ref: FST 03/15)
- 10. JFP Investments (SICAV) plc v MFSA (Case Ref: FST 01/16)
- 11. FX-CAM Consulting and Advertisement Limited (formerly Sensus Capital Markets Ltd) v MFSA (Case Ref: FST 02/16)
- 12. St Publius Corporate Services Limited v MFSA (Case Ref: FST 03/16)
- 13. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST 04/16)
- 14. Hollingsworth International Financial Services Limited v MFSA (Case Ref: FST 07/16)
- 15. Futura Investment Management Limited v MFSA (Case Ref: FST 08/16)
- 16. Hollingsworth International Financial Services Limited v MFSA (Case Ref: FST 09/16)
- 17. Heikki Niemela, Mika Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST 10/16)
- 18. Niemela, Lehto, Nemea plc, Nevestor SA, Nemea Bank plc v MFSA (Case Ref: FST 01/17)
- 19. Victoria Insurance Agency Limited v MFSA (Case Ref: FST 02/17)
- 20. Pilatus Holding Ltd v MFSA (Case Ref: FST 02/18)
- 21. Johannes Helmut Michael Bauer, Claude-Anne Sant Fournier, Hamidreza Ghanbari, Robert L. Klingensmith, Luis Felipe Rivera and Mustafa Cetinel in their personal capacities as directors of Pilatus Bank plc and for and on behalf of Pilatus Bank plc v MFSA (Case Ref: FST 03/18)
- 22. Portmann Capital Management Limited v MFSA (Case Ref: FST 04/18)
- 23. Portmann Capital Management Limited v MFSA (Case Ref: FST 05/18)

- 24. Signia Holding Ltd & Satabank plc v MFSA (Case Ref: FST 06/18)
- 25. Novium AG v MFSA (Case Ref: FST 01/19)
- 26. ITC International Pensions Limited v MFSA (Case Ref: FST 02/19)
- 27. E&S Consultancy Limited v MFSA (Case Ref: FST 03/19)
- 28. Momentum Pensions Malta Limited v MFSA (Case Ref: FST 04/19)
- 29. Marine Bunkers Malta Limited v Listings Authority & MSE (Case Ref: FST 05/19)
- 30. E&S Consultancy Limited v MFSA (Case Ref: FST 06/19)

Pending court cases as at 31 December 2019

Court of Appeal (Civil, Inferior)

- 31. Portmann Capital Management Limited v FIAU & MFSA (95/18)
- 32. FX-CAM Consulting and Advertisement Limited (C57386), ex Sensus Capital Markets Ltd v MFSA (67/19)

Civil Court, First Hall

- 33. All Invest Company Limited v X (888/2013 JZM)
- 34. Amedeo Barletta noe v MFSA (276/2012 JRM)
- 35. All Invest Company Limited v X et (894/2017 MCH)
- 36. Pilatus Holding Ltd et v MFSA (936/2018 RGM)
- 37. E&S Consultancy Limited v MFSA (759/2019 AF)

<u>Civil Court (Commercial Section)</u>

- 38. Maltese Cross Financial Services Limited v X (204/2015 JZM)
- 39. Av Mark Refalo noe v Brian Tonna Pro Et Noe (827/17 JZM)

Civil Court, First Hall (Constitutional Jurisdiction)

40. Carmel Cortis et v Prim Ministru et (21/2019TA)

Photographer - Credit

Photographs courtesy of Duncan Cauchi. Duncan is a System Infrastructure Manager within the Technology Operations function at the MFSA. Duncan relates how photographing such locations helps him disconnect from the fast-moving, tech-driven lifestyle he normally leads. In 2018, he was awarded a Fellowship by "The Societies of Photographers" from the UK, the highest and most respectable qualification in photography. In 2019 Duncan was promoted as an official judge, both at the UK societies and locally at the Malta Institute of Professional Photography (MIPP). He is frequently asked to lecture about his passion at distinguished conferences around Europe.



Mtaħleb



II-Ħofra iż-Żgħira - Delimara



Taqtija ta' Delimara



Għar Lapsi



II-Ġebla tal-Ġeneral



Ramla I-Ħamra, Gozo



II-Ħofra iż-Żgħira - Delimara



Anchor Bay, Mellieħa



Coral Lagoon, Mellieħa



II-Ġebla tal-Qarraba, Għajn Tuffieħa

Malta Financial Services Authority